Audit Committee

Minutes of the Audit Committee meeting held on Monday 7 January 2019 at 2.00pm in the Boardroom, Robert Dolan House, 9 Alie Street, E1 8DE

Present:	Anit Chandarana	Non-Executive Director (Chair of the meeting)
	Mary Elford	Non-Executive Director
In attendance:	Zenda Butler	Head of Counter Fraud
	Steven Course	Chief Financial Officer
	Matt Dean	External Audit Senior Manager, Grant Thornton UK
	Mason Fitzgerald	Executive Director of Planning & Performance
	Cathy Lilley	Assistant Director of Corporate Governance
	Ciaran McLaughlin	External Audit Director, Grant Thornton UK
	Clive Makombera	Internal Audit Manager, RSM
	Beth Raistrick	Local Counter Fraud Specialist
Apologies:	Eileen Taylor	Non-Executive Director

The minutes are produced in the order of the agenda

1 Welcome and Apologies for Absence

1.1 Anit Chandarana welcomed all to the meeting and introductions were made.

Apologies were noted, including from Eileen Taylor. Anit would raise questions received in writing from Eileen Taylor on her behalf.

1.2 The Committee noted and supported the approach to be taken at meetings:
- It will be assumed that all have read the papers
- Report presenters will be invited to highlight key points and matters for the Committee's consideration
- Following presentation of key points, Committee members will be invited to raise questions and to comment.

2 Declarations of Interests on Items on the Agenda

2.1 No declarations were made.

3 Minutes of the Previous Meeting held on 26 November 2018

3.1 The Minutes of the meeting held on 26 November 2018 were **APPROVED** as a correct record.

4 Action Log and Matters Arising from the Minutes

4.1 Action Log
The Committee reviewed the action log and noted updates:
- Action 83 Counter Fraud- working while sick:
  - No response from NHS Protect (Counter Fraud Authority) to date but concerted attempts to make contact will continue. Action due date to be extended to April 2019; the Committee will be informed via email (to the Chair in the first instance) as soon as there is progress or whichever is the

sooner
Action: Zenda Butler
- NHS Protect formal documents relating to working whilst sick have been reviewed and there is no reference to data sharing between agencies on staff suspected of working whilst sick
- Action 85 Counter Fraud - disproportionate lack of referrals from Bedfordshire:
  - Clive Makombera had requested data from Cambridgeshire Community Services. This will be shared with Zenda Butler as soon as it is available
    Action: Clive Makombera
  - The due date for the action extended to April 2019.

Other actions were either closed, on the agenda or in progress within timeframe.

4.2   **Matters Arising**
Referring to Item 14 of the minutes of the meeting held on 26 November 2018, , the Committee noted that an action had been agreed in relation to 'Deep Dives', which should be added to the action log.
Action: Anit Chandarana/Steven Course

5.0   **External Audit**

        a.   External Audit Plan

5.1   Ciaran McLaughlin presented highlights from the External Audit Plan.

        The Committee noted:
        - Three significant risks to be audited during 2019/20: improper recognition of revenue; management override of controls; valuation of property, plant and equipment
        - Materiality will be set at £7m (1% of turnover)
        - The threshold for 'trivial' will be £300k
        - The timescale and logistics of the audit as detailed in the report.

        In discussion, the Committee noted:
        - The significant risks that will form a focus for external audit are common to all Trusts. They have not been selected in response to any specific indications of concern at ELFT
        - ELFT's risk profile has not changed with respect to improper recognition of revenue. This area will receive additional scrutiny in response to new accounting standards introduced following failures at Tesco
        - Grant Thornton's fee for 2019/20 of £59,020 will be as for 2018/19. The contract and fee were determined through a competitive tender process in 2016/17. This fee is fixed for three years
        - The External Auditors will audit the Trust's Quality Accounts in parallel with and to the same timescale as for financial accounts
        - Duncan Gilbert will attend an RSM event on 24 January 2019 to learn of other Trusts' experience in producing Quality Accounts, to aid in continuous improvement.

5.2   Anit Chandarana asked Ciaran McLaughlin to summarise how the External Auditor's view their role in relation to the role of the Audit Committee.

        The Committee noted that:
        - The External Auditors would expect the Audit Committee to satisfy itself

that accounting treatments are appropriate, using, but not relying solely on, the external audit report
- No disputes are anticipated
- External audits may identify improvements needed to controls. If so, the Audit Committee would be responsible for monitoring the implementation of the recommendations.

5.3 The Audit Committee **RECEIVED, DISCUSSED** and **NOTED** the External Audit Plan.

b. Progress Report

5.4 The Audit Committee **RECEIVED** and **NOTED** the External Audit progress report

6   Internal Audit Progress Report

6.1 Clive Makombera provided a brief overview of the approach taken to internal audit and highlighted the main points from his report.

The Committee noted:
- Outputs from internal audit are divided into those reported to the Quality Assurance Committee and those reported to the Audit Committee; Mary Elford is the NED in common on both Committees
- Good progress in implementing the internal audit programme
- Two audits are yet to commence in line with the plan: information governance and data protection toolkit (January 2019); and Bedfordshire Community Services integration (February 2019)
- Seven management actions are in the process of being implemented/overdue; 47 were implemented within the agreed timescale
- Information briefings on national issues.

In discussion, the Committee noted that:
- The internal audit plan will be discussed at the Board Development Session in February 2019, following which will be signed off by the Audit Committee; this approach enables the whole Board to 'own' the audit plan and allows a wide strategic scope
- The External Auditors are not yet in a position to share any learning from recent incidents at Merseycare involving significant invoice fraud
- ELFT relies on third party reports as a source of assurance on standards met by outsourced suppliers. Consideration is needed on whether more direct communication would be beneficial.
- Findings from audits of data quality will be reported to the Quality Assurance Committee
- There will be quarterly rather than annual reports for the GDPR Toolkit, starting in January 2019
- There would be benefits from reviewing the links between the Audit Committee and Quality Assurance Committee to streamline communication.

6.2 The Committee raised and discussed concerns about the non-completion of high priority management actions within the timescales. In discussion, it was confirmed that:
- There is no formal system for agreeing mitigating action when deadlines for completing high priority actions are missed

- An informal system of using spreadsheets is in place, but it is not used consistently across directorates
- The process for agreeing revised dates for actions not completed is to escalate to Executive Directors
- The majority of actions are completed on time (47 implemented within the agree timescale compared to seven not delivered on time)
- Most of the delays are in respect of actions agreed for Workforce. Electronic solutions for managing appraisals have proved difficult to implement and the focus will now be on using the Electronic Staff Record.
- The Audit Committee will receive at each meeting a table or graph tracking action closure as this would help assess the scale of delays
  Action: Clive Makombera
- The Audit Committee will receive at its next meeting a report setting out action being taken to expedite delays in implementing Workforce actions.
  Action: Tanya Carter

6.3   The Audit Committee **RECEIVED**, **DISCUSSED** and **NOTED** the internal audit progress report and **AGREED** action with regard to delayed implementation of controls (see above).

7   Counter Fraud Progress Report

7.1   Zenda Butler presented the Counter Fraud Progress report summarising the work undertaken since April 2018.

The Committee noted that:
- There had been one new allegation of expense fraud concerning whether bank shifts were authorised and worked
- Potential for expense fraud in Luton and Bedfordshire had been investigated. Forms were not being completely properly, but this did not constitute fraud. The proactive investigation was therefore closed. An article explaining correct processes is to be circulated to staff
- A wide range of basic fraud awareness and prevention services has been delivered. Fraud talks have been well received by staff.

In response to questions and comments, the Committee noted that:
- Mandatory use of electronic systems for expense claims would help address the main problems uncovered in Luton and Bedfordshire: that journey start and end points are not evidenced systematically and clearly
- The Audit Committee should receive an update on progress with using electronic expense claims systems at a future meeting
  Action: Steven Course
- The range and type of counter fraud activities undertaken in ELFT is determined by external standards that NHS providers must comply with. The Counter Fraud team is required to report annually on these activities. Steven Course and Zenda Butler review the workplan each month.
- The Audit Committee would find it beneficial to have an analysis of which counter fraud activities have the most impact. This would assist in focussing activity in the most effective areas. The Head of Counter Fraud should meet with Eileen Taylor to discuss
- **Action: Zenda Butler**

7.2   The Committee discussed in detail a proposal to stop anonymising national cases of fraud which are used in communication material to staff, for deterrent purposes.

The Committee noted that:
- ELFT communications team had advised that anonymity should cease for cases where individuals have been convicted and the conviction has not been spent
- Information is already in the public domain and including names of offenders could increase the deterrent effect
- The general view is that personalising fraud has the effect of making it more real
- The trigger point to cease anonymity would be sentencing.
- Safeguards/controls are needed to ensure that any communication citing a named individual is withdrawn as soon as their conviction is spent.
  Action: Mason Fitzgerald

7.3   The Committee **RECEIVED, DISCUSSED** and **NOTED** the report and **AGREED:**
- That ELFT should stop anonymising national cases of fraud in communication materials, if the person has been sentenced and the conviction has not been spent
- That the Director of Planning & Performance would have delegated authority to approve removal of anonymity, subject to implementing agreed controls.

8   Risk Management and Board Assurance Framework including Corporate and Directorate Risk Registers

8.1   Mason Fitzgerald introduced the report and summarised the background.

The Committee noted:
- The Board Assurance Framework (BAF)/Risk Management Framework (RMF) had been revised in 2018 to align it with strategic objectives and to reflect the outcome of an internal audit, an advisory review and a standard year end audit
- At present, partial assurance is available on risk management
- Committee views are sought on:
  - The principles and mechanisms for linking Directorate red-rated risks and the Corporate Risk Register (CRR) with the BAF
  - Reporting and oversight: at present BAF risks are allocated to Board Sub-Committees with an overview presented to the Audit Committee once a year
  - How corporate/cross organisation risks, such as IT, should be managed'

8.2   A number of themes emerged from questions and comments. The Committee noted that:

Oversight of IT risks
- IT is rated red on the CRR
- The Finance, Business & Investment Committee is responsible for oversight of all IT risks
- A Digital Programme Board responsible for taking forward ELFT's strategic objectives for IT, reports to an extended meeting of the FBIC every other month
- The IT Working Group (which led to the establishment of the Digital Programme Board) completed its work in summer 2018. References and actions using the terminology IT Working Group should be deleted
  Action: Mason Fitzgerald

- 'Deep dives' are used to assess risks that might emerge in any part of the organisation. IT is such a risk. Action is outstanding to agree a programme of deep dives. (see item 4.1)

Change in risk scores/missing scores/risk trajectories
- Apparent rapid movement in risk scores is the artificial effect of introduction of the new risk framework
- Risk 2 lacks a target score pending discussion of management of the CRR. It is similar to, and may be merged with Risk 1
- Consideration should be given to developing and monitoring expected risk trajectories.
  Action: Mason Fitzgerald/Anit Chandarana

Improvements required to enable Audit Committee confidence in the BAF as its main tool for assurance
- The BAF is the Audit Committee's key tool in its role of managing strategic risks
- Commentary needs to be strengthened across all risks
- Rigour needs to be improved with regard to setting dates for addressing gaps in controls and keeping track of outcomes
- Provide more detail on 'in progress' statements balancing the need for concise information that prompts conversation, and detail that becomes overwhelming
- Clarify the process for escalation in the event that action is delayed, or ineffective, e.g. there is reference to a Pulse survey due in October 2017 but no information of whether/when this happened and with what outcome
- The BAF should be limited to strategic risks; transactional risks should be removed.

Audit Committee relationship with other Committees
- The Audit Committee's role in overseeing risk management, which is also a function of other Committees, requires further consideration
- Guidance is needed on when risks that have been allocated to other Board Sub-Committees should also be considered by the Audit Committee
- There are some corporate areas that are not risks to strategic objectives, but which may create risk if they do not function well, e.g. stakeholder engagement
- The Quality Assurance Committee receives in depth reports similar to deep dives, for example, on learning disability services.

8.3   The Audit Committee **RECEIVED, DISCUSSED** and **NOTED** the report, and **AGREED:**
- That a range of improvements to the BAF and its relationship with the Corporate Risk Register is needed to enable the Audit Committee to use it confidently in its role of managing strategic risks
- That further consideration is needed of the relationship between the Audit Committee and other Board Sub-Committees with responsibility for specific areas of risk management.
  Action: Mason Fitzgerald/Cathy Lilley

9   Annual Report Update

9.1   Cathy Lilley highlighted the main points from the report and confirmed that a detailed development plan has been drafted for the production of the Trust's 2018/19 Annual Report. The plan has been based on good practice and has been developed in consultation with the Trust's external auditors taking account of the

regulatory deadlines and tight timescale.

In response to questions and clarifications, the Committee noted that:
- The process for developing the Annual Report and Quality Accounts for 2017/18 had not run smoothly; there had not, however, been any challenges with the production of the Annual Accounts
- The Annual Report production is necessarily a 'running process' with tight timescales for producing and commenting on data and other information; support from section authors and the Board in reviewing the documents was key
- The two days allowed for Board comment on a draft (23-25 April 2019) is acknowledged to be demanding, but is unavoidable due to dates at which information will become available
- Given the short period for comment, it is important that Board members, particularly new NEDs, keep dates free and are clear about their role. A briefing note will be produced, including details of Audit Committee meetings that all Non-Executive Directors can attend. There would be benefits in assigning specific responsibilities to Non-Executive Directors and Committees (for example the Remuneration Report will be considered by the Appointments & Remuneration Committee).
  Action: Mason Fitzgerald.

9.2   The Audit Committee **RECEIVED, DISCUSSED** and **NOTED** the report.

10   Waivers

10.1   Steven Course presented the report on waivers approved in the period 23 November to 28 December 2018.

In discussion the Committee noted that:
- The process for waivers, under Standing Financial Instructions, is for waivers already signed to be brought to the Audit Committee for review
- There are potential concerns about the frequency and level of checks made for waivers due to 'continuity of supply' or relationship. These feature in particular with regard to coaching and mentoring services. Although there are new processes for approving clinical supervision contracts and some prior arrangements have been stopped
- It is misleading to refer to civil engineering companies simply as sole suppliers. Specificity is needed, for example, that the company is the sole supplier with a ready-trained workforce able to operate in a forensic services environment.
- References to plans to 'waiver next year' arise for Outreach Services where the supplier is dictated by CCGs. This is not in line with the Trust's SFIs and therefore must be reported as a waiver
- The number of waivers at ELFT has been declining.

10.2   The Committee **RECEIVED** and **NOTED** the report.

11   Policies: Counter Fraud and Bribery Policy

11.1   Zenda Butler advised that the Committee that there had been minor changes to the Counter Fraud and Bribery Policy.

The Committee ratified the Counter Fraud and Bribery Policy subject to the

following additions:

- Reference to links to other relevant policies, e.g. the Freedom to Speak Up Policy and Whistleblowing Guidance
- A summary and examples as part of the introduction
- Removal of anonymity in communication materials where the person has been convicted and the conviction is not yet spent.

11.2   The Audit Committee **RATIFIED** the Counter Fraud and Bribery Policy subject to the additions in 11.1 which the Chair would approve on behalf of the Committee.

12.   Quality Assurance Committee Minutes 1 November 2018

12.1   There were no questions of comments on the minutes.

12.2   The Audit Committee **RECEIVED** and **NOTED** the minutes.

13   Any Other Business

13.1   There were no items of AOB raised.

14   Forward Plan

14.1   The Committee agreed that the following should be added to the Forward Plan:

- Updated 'Deep Dives' (reflecting the External Auditor's advice on topics considered in other organisations)
- Audit plans

14.2   The Audit Committee **RECEIVED** and **NOTED** the forward plan and **AGREED** additions as in 14.1

15   Issues to be brought to the Board's attention (positive and negative assurance)

These were agreed as:
- BAF and risk registers
- Annual Report process
- Internal and External Audit

16   Date of next meeting

Tuesday 30^{qq} April 2019 at 13:00 – 15:00 in the Boardroom, Robert Dolan House, 9 Alie Street, London E1 8DE.

The meeting closed at 3.20pm, to be followed by a private meeting.