

Trust Board paper Q

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST
REPORT BY TRUST BOARD COMMITTEE TO TRUST BOARD

DATE OF TRUST BOARD MEETING: 2 September 2021

COMMITTEE: Audit Committee

CHAIR: Mr M Williams, Non-Executive Director and Audit Committee Chair

DATE OF COMMITTEE MEETING: 23 July 2021

RECOMMENDATIONS MADE BY THE COMMITTEE FOR CONSIDERATION BY THE PUBLIC TRUST BOARD:

- None

OTHER KEY ISSUES IDENTIFIED BY THE COMMITTEE FOR NOTING BY THE PUBLIC TRUST BOARD:

- Internal Audit Review of Contract Management (Minute 64/21/3)

DATE OF NEXT COMMITTEE MEETING: 20 August 2021

Mr M Williams
Non-Executive Director and Audit Committee Chair

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST**MINUTES OF A VIRTUAL AUDIT COMMITTEE MEETING HELD ON FRIDAY 23 JULY 2021 AT 9.00AM***(held virtually via Microsoft Teams)*

Present: Mr M Williams – Non-Executive Director (Chair)
Col (Ret'd) I Crowe – Non-Executive Director, and Chair of the People, Process and Performance Committee
Mr A Johnson – Non-Executive Director, and Chair of the Finance and Investment Committee

In Attendance: Mr M Brice – Deputy Financial Improvement Director
Mr A Carruthers – Chief Information Officer (for Minute 64/21/4 only)
Mr S Choudhury – Head of Privacy (for Minute 64/21/4 only)
Mr R Cooper – Financial Improvement Director
Mr G George – Interim Director of Corporate and Legal Affairs
Mr S Lazarus – Chief Financial Officer
Mr S Linthwaite – Deputy Director of Finance (Financial Services) (excluding Minute 69/21)
Ms E Mayne – Grant Thornton (the Trust's External Auditor)
Mr I Orrell – Associate Non-Executive Director (observing)
Ms K Rayns – Corporate and Committee Services Officer
Mr M Stocks – Grant Thornton (the Trust's External Auditor)
Mr D Streets – Head of Procurement and Supplies (for Minute 64/21/3 only)
Ms C Wood – PwC (the Trust's Internal Auditor) (excluding Minute 69/21)

RESOLVED ITEMS**ACTION****59/21 WELCOME AND APOLOGIES FOR ABSENCE**

The Audit Committee Non-Executive Chair welcomed everyone to the meeting, including Mr G George, who was attending his first meeting as the incoming Interim Director of Corporate and Legal Affairs.

Apologies for absence were received from Ms V Bailey, Non-Executive Director; Ms A Breadon, PwC (the Trust's Internal Auditor); Mr J Shuter, Director of Operational Finance and Mr S Ward, Director of Corporate and Legal Affairs.

60/21 DECLARATIONS OF INTERESTS

Mr A Johnson, Non-Executive Director declared his role as Non-Executive Director Chair of Trust Group Holdings Ltd (TGH) and the Chief Financial Officer declared his role as Non-Executive Director of TGH. With the agreement of the Audit Committee, these individuals remained present.

Resolved – that the position be noted.

61/21 MINUTES

Resolved – that the Minutes of the 21 June 2021 Audit Committee (papers A and A1) be confirmed as correct records.

62/21 MATTERS ARISING REPORT

Paper B provided a summary of the matters arising from the 21 June 2021 Audit Committee and outstanding matters arising from previous Audit Committee meetings. In respect of item 17 (Minute 19/21/1 of 5 March 2021 refers), it was noted that a Trust Board Workshop had been scheduled for 17 September 2021 to consider the draft 2021/22 Board Assurance Framework (BAF).

Resolved – that the matters arising report (paper B) and the additional information provided above be noted.

63/21 KEY ISSUES FOR DISCUSSION/DECISION

63/21/1 Confidential Report by the Deputy Financial Improvement Director

Resolved – that this Minute be classed as confidential and taken in private accordingly.

63/21/2 Confidential Report by External Audit

Resolved – that this Minute be classed as confidential and taken in private accordingly.

63/21/3 Update on the Management Response to the draft Audit Findings Report 2019/20

Further to Minute 52/21/3 of 21 June 2021, the Deputy Financial Improvement Director introduced paper E, updating the Audit Committee on progress of the corrective actions to address the control weaknesses highlighted in the External Auditor's draft Audit Findings Report (AFR) 2019/20. As per the previous reports on this issue, appendix A set out the completed management actions, appendix B described the current status of the non-completed items and appendix C provided a summary of progress against External Audit's prior-year recommendations (2018/19). The Deputy Financial Improvement Director highlighted the main areas of progress since the last report, noting that the year-end accounting processes for 2019/20 and 2020/21 remained the main priority and this had impacted upon the team's ability to progress some of the planned improvement projects. Journal controls remained in place and a recent Internal Audit review had assessed this as a low risk area. Purchase to pay processes continued to be progressed, including the potential implementation of a 'no purchase order, no payment' policy. Subject to the Financial Recovery Board's endorsement, the revised Standing Financial Instructions and Standing Orders would be presented to a future Audit Committee for approval. Further work was taking place to improve the accounting processes surrounding private patients and overseas visitors and an action plan had been implemented accordingly.

Resolved – that the update on the Management Response to the draft Audit Findings Report 2019/20 be received and noted as paper D.

63/21/4 Progress against the Statutory Recommendations

Further to Minute 52/21/4 of 21 June 2021, the Deputy Financial Improvement Director introduced paper F, providing an update on UHL's progress against the nine Statutory Recommendations arising from the 'Audit of Accounts 2019/20 – Financial Reporting, Governance and Financial Sustainability' report which was presented to the Audit Committee in January 2021. A Trust Board-approved Board Development Programme was now in place to support a culture which focused upon accurate financial reporting. The budget and financial management training programme had been completed by 94.7% of UHL's budget holders and ethics training was now being provided as part of the Finance Directorate restructure. The review of Standing Financial Instructions, Standing Orders and Scheme of Delegation was almost complete and these revised documents would be presented to the Financial Recovery Board (FRB) and the Audit Committee imminently. In respect of Statutory Recommendation 9, the medium term financial plan was regularly discussed at the FRB meetings and a Trust Board Workshop on this subject would be held on 12 August 2021. The Chief Financial Officer briefed the Audit Committee on the in-depth work that was being undertaken by Mr S Wombwell, Financial Consultant in identifying the true drivers of UHL's financial deficit, including the proportions that were due to operational inefficiencies, structural deficits and transformational changes required within the System (respectively).

The Audit Committee Non-Executive Director Chair commented upon the linkages between Statutory Recommendation 5 and the Internal Audit Review of Contract Management (which featured on today's agenda as paper I – Minute 64/21/3 below refers). He also observed the importance of demonstrating that UHL had delivered everything possible to improve its underlying financial performance (eg cost improvement, efficiency and transformation) before seeking additional funding from the LLR System.

Resolved – that the update on progress of the Statutory Recommendations be received and noted as paper F.

63/21/5 Confidential Report by the Chief Financial Officer

Resolved – that this Minute be classed as confidential and taken in private accordingly.

64/21 ITEMS FOR ASSURANCE

64/21/1 Final Internal Audit Annual Report 2020/21

Further to Minute 53/21/1 of 21 June 2021, Ms C Wood, Internal Audit introduced paper G, providing the final version of the Internal Audit Annual Report for the year ended 31 March 2021. The overall Head of Internal Audit Opinion advised that major improvement was required. It also highlighted significant weaknesses and non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk and stated that major improvements were required to improve the adequacy and effectiveness of governance, risk management and control. The Audit Committee received and noted the content of this report and the Interim Director of Corporate and Legal Affairs confirmed that he would be drafting the Annual Governance Statement in accordance with the guidance provided in this report.

Resolved – that the Final Internal Audit Annual Report for 2020/21 be received and noted as paper J.

64/21/2 Internal Audit Progress Report 2021/22

Ms C Wood, Internal Audit introduced paper H, detailing progress against the Internal Audit Plan for 2021/22, noting that fieldwork had commenced with the Data Quality and Financial Reporting reviews and terms of reference had been issued for the Staff Health and Wellbeing review. There had been a change of scope within the Data Quality review which would now focus on diagnostics (rather than ambulance handovers) as the majority of the data for ambulance handovers was held by the East Midlands Ambulance Service. The Salary Sacrifice review had been deferred from the 2020/21 plan into the 2021/22 plan but this work had not yet commenced due to a number of issues having been flagged in relation to the car and accommodation schemes. The recommendations arising from previous Internal Audit reviews continued to be monitored closely. This month had seen a slight improvement in that there were nine overdue actions, three of which were deemed to be high risk. Extensions to the deadlines had been requested for two of the actions and others were noted to require further input from the Trust.

Col (Ret'd) I Crowe, Non-Executive Director requested that the forthcoming review of Data Quality included a specific focus upon the application of waiting list management policies where there had previously been some suggestion that the rules were being misinterpreted surrounding clock starts and clock stops within the patient journey. The Deputy Financial Improvement Director confirmed that he would be following up on the outstanding actions to respond to Internal Audit recommendations for the Finance Directorate and he would provide feedback to Internal Audit within the next two weeks.

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Mr A Johnson, Non-Executive Director expressed his general concerns about the findings of the Internal Audit reports on today's Audit Committee agenda. The overall Head of Internal Audit Opinion was disappointing and the number of outstanding follow-up actions suggested a lack of urgency or application to resolve them. He sought a view from Ms C Wood, Internal Audit about what was missing within the process to turn things around. In response, Ms Wood suggested that there was always room for improvement within the follow-up actions, but many staff were working under pressure currently and there were a large number of actions that required attention. The process itself appeared to be robust, in that the lead officers received automated reminders about their actions, and Ms H Stokes, Corporate and Committee Services Manager chased the lead officers and prepared a report for the Executive Planning Meetings which held them to account and agreed timescale extensions where appropriate. No other NHS Trusts were perfect in this area, but UHL was showing an improved trajectory. Partial evidence had been submitted to demonstrate progress against some actions, but this was not quite sufficient for Internal Audit to close down the actions completely.

The Audit Committee Non-Executive Director Chair highlighted the need for the lead officers to

challenge any Internal Audit recommendations if they felt that they were inappropriate. Without undermining the Internal Audit activity, it was crucial that the views of the Auditors and the Auditees were aligned in respect of the audit recommendations and management actions required to address any identified risks or control weaknesses. He also sought member's views on whether UHL's relationship and working arrangements with Internal Audit was improving. Ms C Wood, Internal Audit responded to confirm that the relationship between UHL and Internal Audit had always been good, but the capacity to implement all of the agreed actions had been challenging. The Chief Financial Officer also confirmed that this relationship had never been bad, but he and the Director of Operational Finance had struggled to find capacity previously to focus on the Internal Audit recommendations in parallel with other pressures and competing priorities. The position had improved since the appointment of the Deputy Director of Finance (Financial Services) and with the additional interim resources in the Finance Directorate.

Resolved – that (A) the Internal Audit progress report be received and noted as paper H;

(B) Internal Audit be requested to ensure that the terms of reference for the Internal Audit review of Data Quality included an appropriate focus on the interpretation of clock starts and clock stops within the policies for waiting list management, and

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(C) the Deputy Financial Improvement Director be requested to continue progressing the outstanding follow-up management actions arising from recent Internal Audit reviews and provide feedback to Internal Audit on progress/current status of each action.

DFID

64/21/3

Internal Audit Review of Contract Management (high risk rating)

Paper I provided a summary of the findings arising the Internal Audit review of Contract Management. Mr D Streets, Head of Procurement and Supplies joined the virtual meeting for this item. The review had identified 2 high risk findings, 5 medium risk findings, 1 low risk finding and 1 advisory finding. Since the review had been undertaken, UHL had established a contract management framework and a Procurement and Contracts Committee and a new contract lifecycle management tool (Atamis) had been procured to replace the earlier Proactis e-tendering system. However, there was still some significant work required to embed the contract management framework and establish clear roles and responsibilities for delivering it.

In discussion on the report, Audit Committee members agreed that it made uncomfortable reading, noting that it highlighted a number of gaps in UHL's existing processes and missed opportunities for efficiency savings. Members discussed the apparent lack of grip and control and potential opportunities to address some of the control weaknesses through the budget holder training programme and the development of the revised Standing Orders and Standing Financial Instructions. The Audit Committee requested that progress reports on the management actions to respond to this Internal Audit review be included as a standing item on the Audit Committee agenda going forwards. Mr A Johnson, Non-Executive Director highlighted the concerns he had raised previously about the lost opportunities surrounding 'emergency' extensions to contracts due to the lack of timely review. He recommended that the remit of the newly established Procurement and Contracts Committee be broadened to include the theme of 'process' and that progress against time-based targets be monitored more closely. Mr Johnson also suggested that it would be helpful to hold a Trust Board discussion on the most appropriate Board-level Senior Responsible Officer for contract management.

DEF/HPS

DEF/HPS

The Chief Financial Officer commented upon the required cultural changes which would need to be embedded amongst the CMG and operational teams to demonstrate that non-compliance with the procurement rules was not an option. He also raised some practical suggestions about building in procurement guidance/compliance within the staff Induction Programme, staff appraisal process and CMG Performance Review Meetings. The Audit Committee Non-Executive Director Chair commented upon the challenging target dates for some of the management actions (eg implementation of a contract management manual by October 2021) and he encouraged the Head of Procurement and Supplies to assess whether these were realistic and/or achievable, noting that any requests for extending these target dates would require approval by the Executive Team and Internal Audit.

DEF/HPS

DEF/HPS

Resolved – that (A) the findings of the Internal Audit review of Contract Management be

received and noted as paper I;

(B) the Director of Estates and Facilities and the Head of Procurement and Supplies be requested to:-

- (1) provide regular progress reports on the management actions underway to respond to this Internal Audit review as a new standing item on the Audit Committee agenda; DEF/HPS
- (2) consider including the theme of 'process' within the remit of the Procurement and Contracts Committee and implementing a programme of formal monitoring against time-based improvement targets; DEF/HPS
- (3) review the target dates for the management action to respond to this Internal Audit review to assess whether they were realistic and achievable; DEF/HPS
- (4) consider practical applications for embedding improvements in contract management processes through induction training, staff appraisals and CMG Performance Review Meetings, and DEF/HPS

(C) the Internal Audit Review of Contract Management be highlighted at the Trust Board meeting on 2 September 2021 and a discussion be held at that Trust Board meeting about the appropriate Board-level Senior Responsible Officer for Contract Management. AC NED CHAIR

64/21/4 Internal Audit Review of the Data Security and Protection Toolkit

Resolved – that this Minute be classed as confidential and taken in private accordingly.

64/21/5 Counter Fraud Progress Report 2021/22

Ms A Clarke, Local Counter Fraud Specialist introduced paper K, providing the bi-monthly progress report against the 2021/22 Counter Fraud plan, advising that the Counter Fraud Functional Standard Return (CFFSR) had been successfully submitted to the NHS Counter Fraud Authority (NHSCFA) on 1 June 2021. The NHSCFA was launching a Post Event Assurance Exercise on Procurement and planning was underway for UHL to participate in this exercise. An update on this matter would be provided in the report to the September 2021 Audit Committee meeting. The Local Counter Fraud Specialist briefed the Committee on progress of referrals, noting that one new referral had been received and that two referrals had been closed during this reporting period. In respect of case 1906, a hearing had been rescheduled and regular contact was being maintained with the Human Resources team regarding progress of this case. Mr I Orrell, Associate Non-Executive Director expressed his surprise that the individual still had any access to UHL's systems, albeit that such access had been restricted. However, assurance was provided that any meaningful access to systems had been removed whilst the investigation was ongoing.

Resolved – that the Counter Fraud progress report be received and noted as paper K.

64/21/6 Alternative Sources of Assurance for themes due for Internal Audit Review in 2021/22

Paper L identified the various alternative sources of assurance for those items which had been identified as being due for review as part of the risk-based planning process for the Internal Audit Plan in 2021/22, but which had not been included in the final plan due to resource constraints. The Audit Committee Non-Executive Director Chair sought and received confirmation that members were sufficiently assured by this process. A short discussion took place regarding the cyclical bottom-up process that was used for development of the Internal Audit Plan and the historical resource allocation of 280 days. Assurance was provided that this resource allocation was comparable with other similarly sized NHS Trusts. Col (Ret'd) I Crowe, Non-Executive Director requested the Corporate and Committee Services Officer to circulate copies of paper L to the relevant Board Committee Chairs and Corporate and Committee Services Officers to ensure that the alternative sources of assurance were embedded in the relevant work programmes for each Board Committee going forwards. CCSO

Resolved – that (A) the Alternative Sources of Assurance for themes due for Internal Audit Review in 2021/22 but not included in the 2021/22 Internal Audit Plan be received and noted as paper L, and

(B) the Corporate and Committee Services Officer be requested to circulate paper L to CCSO

the relevant Board Committee Chairs and Corporate and Committee Services Officers to ensure that the alternative sources of assurance were embedded in the Board Committee work programmes going forwards.

64/21/7 Discretionary Procurement Actions

Paper M provided a summary of the discretionary procurement actions for the period of June 2021. Appendix 1 detailed the fifteen occasions when waivers had been approved. A further thirty five waivers were currently entered in the register and were awaiting approval. The Audit Committee Non-Executive Director Chair advised that he would be contacting the Head of Procurement and Supplies to obtain the supporting paperwork in relation to one of the discretionary procurement actions for his own review (outside the meeting).

AC NED
CHAIR

Resolved – that (A) the report on Discretionary Procurement Actions be received and noted as paper M, and

(B) the Audit Committee Non-Executive Director Chair be requested to contact the Head of Procurement and Supplies to obtain the supporting paperwork for one of the discretionary procurement actions for his own review (outside the meeting).

AC NED
CHAIR

65/21 ITEMS FOR NOTING

Resolved – that the Minutes of the following meetings be received and noted at papers N1 to N4 respectively:

- Quality and Outcomes Committee meeting held on 27 May 2021;
- People, Process and Performance Committee meeting held on 27 May 2021;
- Finance and Investment Committee meeting held on 27 May 2021, and
- Charitable Funds Committee held on 18 June 2021.

66/21 ANY OTHER BUSINESS

There were no items of any other business.

67/21 IDENTIFICATION OF ANY KEY ISSUES FOR THE ATTENTION OF THE TRUST BOARD

Resolved – that the Audit Committee's discussion on the following items be brought to the attention of the Trust Board on 2 September 2021:-

AC
CHAIR

- Confidential Report by the Deputy Financial Improvement Director (Minute 63/21/1 refers), and
- Internal Audit Review of Contract Management (Minute 64/21/3 refers).

68/21 DATE OF NEXT MEETING

Resolved – that the next Audit Committee meeting be held on **Friday 20 August 2021 from 9am – 12noon** (virtually via MS Teams).

69/21 DISCUSSIONS IN THE ABSENCE OF INTERNAL AUDIT AND COUNTER FRAUD REPRESENTATIVES

69/21/1 Confidential Report by External Audit

Resolved – that this Minute be classed as confidential and taken in private accordingly.

69/21/2 Audit Committee Private and Confidential Minutes

Resolved – that the private and confidential Minutes of the Audit Committee meeting held on 21 June 2021 (paper P) be confirmed as a correct record.

69/21/3 Audit Committee Confidential Matters Arising

Resolved – that the private and confidential matters arising report be received and noted as paper Q.

The meeting closed at 12.05pm

Kate Rayns, **Corporate and Committee Services Officer**

Audit Committee Cumulative Record of Members' Attendance (2021/22 to date):

Members:

Name	Possible	Actual	%
M Williams	4	4	100
V Bailey	4	3	75
I Crowe	4	4	100
A Johnson	4	4	100

In attendance:

Name	Possible	Actual	%
M Brice	4	4	100
G George	1	1	100
S Lazarus	4	2	50
J Shuter	4	2	50
S Ward	3	3	100