

**Agenda item 3.iii**

<b>Report to:</b>	<b>Board of Directors</b>	<b>Date: 4 November 2021</b>
<b>Report from:</b>	<b>Chair of the Audit Committee</b>	
<b>Principal Objective/ Strategy and Title</b>	<b>GOVERNANCE: To update the Board of Directors on discussions at the Audit Committee meeting on 14 October 2021</b>	
<b>Board Assurance Framework Entries</b>	<b>FSRA BAF (Unable to maintain financial, operational, and clinical sustainability)</b>	
<b>Regulatory Requirement</b>	<b>Regulator licensing and Regulator requirements</b>	
<b>Equality Considerations</b>	<b>Equality has been considered but none believed to apply</b>	
<b>Key Risks</b>	<b>Non-compliance resulting in financial penalties</b>	
<b>For:</b>	<b>Information</b>	

**1. Significant issues of interest to the Board**

**1.1 Summary**

The main order of business for the Committee was the review and approval of the Charity's Annual Report and Accounts 2020/21 which was given a full clean audit by the External Auditors, KPMG.

The Committee received progress reports from BDO (current Internal Auditors) for its Local Counter Fraud and Internal Audit services and it is pleasing to say that satisfactory progress is being made and within the time scales planned.

The Committee received the final report on the "Risk Maturity Audit" which was completed in September 2021. The "Conflicts of Interest Compliance" report was also received by the Committee.

The appointment of the External Auditors was approved by the Council of Governors on 15th September 2021. The governance around the appointment of the External Auditors was examined by the Audit Committee and was found to be sound. The recommendation and award of the three-year contract is brought to the Board of Directors for information.

It was noted that a payment of £125k for a tribunal claim was settled and reported under Losses and Special Payments.

The revised policy for the Engagement of External Auditors for non-audit work was approved.

The plan to improve the performance on the Better Payment Practice Code (BPPC) was examined and noted.

## 1.2 **Charity's Annual Report & Accounts 2020/21**

The Committee was asked to review the Annual Accounts and Report for the financial year ending 31<sup>st</sup> March 2021 for the Royal Papworth Charity. The audit was not yet complete with the following outstanding at the time of the meeting:

- Audit clearance meeting to discuss findings
- Final top-up testing in respect of legacies income
- Receipt of signed management representation letter (to be issued by Trustee Board)

However, KPMG did not feel that any of these items would change their reports. A full clean audit has been indicated by KPMG within the draft ISA260 year-end report 2020/21. The following three significant audit risks were found to be satisfactory:

- Fraud risk from recognition of income,
- Management override of control, and
- Fraudulent expenditure recognition

The Committee commended the Finance team and the Auditors for the co-operation and hard work that went in to producing the accounts and reports and to have a such a clean audit.

The Charity's Annual Report and Accounts will be presented to the Trustee Board on 2nd December 2021 and the deadline for submission to the Charity Commission is the 31st of January 2022.

The Committee is recommending to the Trustee Board the approval of the Charity Annual Report and Accounts 2020/21 for signature and submission to the Charity Commission.

## 1.3 **BDO Local Counter Fraud (LCF) – Progress report**

Nine days of counter-fraud activity has been undertaken in the period and are all within the parameters of the Outcome Based Metrics as being fully compliant or in progress.

The Committee was also informed of the revised format of the Fraud Risk Assessment and was assured by LCF that Royal Papworth should be in compliance by the date of submission.

The Committee received a report on the six-monthly review of the "Conflicts of Interest – Compliance Report." This is a report on the compliance with the Trust policy on Management of Conflicts of Interests (DN313). The policy follows the national guidance which introduced common principles and rules for managing conflicts of interest in the NHS.

The Trust moved capture of declarations of interest through the electronic staff records (ESR) system in September 2020. There are currently 358 declarations on the ESR system from 158 staff (of whom 139 were decision making staff and 19 were other staff across the organisation). This means that as at September 2021 70% of the decision making staff had recorded a current or nil declaration on the ESR system. Steps have been taken to ensure that the percentage of declarations will improve by the next report.

## 1.4 **BDO's Internal Audit**

The Internal Audit plan is being adhered to and the Committee received the first final report from BDO on "Risk Maturity Audit." The purpose of the risk maturity assessment is to help ensure an effective risk management culture becomes embedded across the Trust, by

highlighting areas where processes could be improved. As a primarily advisory piece of work, the assessment did not generate an assurance opinion but assessed where the Trust is against its ambition to achieve the risk enabled status. The report identified where further development is required to reach the target maturity levels and have made recommendations for improvement. An action plan with a trajectory of progress has been agreed with the Director of Nursing and a follow up report will be made to the Committee.

BDO, as part of their role in benchmarking the Trust's performance against other organisations, has identified that the Trust's Risk maturity scores are similar to other Trusts and that there are no areas of significant concern. However, when compared to best practice in other sectors and internationally, there is still work to do. However, if ongoing efforts to improve the risk management function continue, and the targets identified throughout the report are met by implementing the recorded actions, there should be an increase in scores which would allow the Trust to position itself against best practice more widely.

### **1.5 External Audit Tender**

A procurement process was followed to appoint the External Auditors as the contract for the current Auditors expires on 31<sup>st</sup> December 2021. The award as recommended by the Council of Governors is to KPMG at a cost of £331k over the three year contract.

For the Trust Audit, the new contract price will be £98k per annum compared to the previous cost of £85k per annum. For the Charitable Fund Audit, it will be slightly above the previous costs of £12k per annum.

The Audit Committee found the governance and process for the appointment of the External Auditors were sound and could support the recommendation by the Council of Governors.

### **1.6 Losses & Compensations**

In the last quarter, the Trust has settled the ongoing tribunal claim with a settlement payment of £80k, there were an additional £42k of legal fees associated with this. As the gross value of £125k exceeded the local limit of £95k, the Committee was given assurance that this payment had been submitted to and given approval by NHSEI as required.

### **1.7 Policy for Engagement of External Auditors for Non-Audit Work**

The revised policy for CG024 which covers the engagement of External Auditors of non-audit work was reviewed and approved by the Committee. The purpose of this policy is to agree when it is appropriate or not for the External Auditors to be used for non-audit services.

It was agreed that this policy will be approved on an annual basis rather than the three-year cycle previously planned.

### **1.8 Better Payment Practice Code (BPCC)**

The Better Payment Practice Code is for all NHS organisations to aim to pay all valid invoices by their due date or within 30 days of receipt of a valid invoice, whichever is later. The target is to pay 95% of invoices, in terms of value and volume. The Trust, when the Chief Financial Officer (CFO) for the NHS wrote to Trust's CFOs and Audit Chairs in August 2021, was running at 72% in terms of value.

An action plan for improvement, previously presented to the Performance Committee, was submitted to the Audit Committee and it was agreed that the plans seem reasonable and both Committees will receive reports on progress.

## **2. Key decisions or actions taken by the Audit Committee**

- Approval of the Royal Papworth Charity's Annual Report and Accounts for recommendation to the Trustee Board for signature and submission to the Charity Commission.
- Approval to report to the Board of Directors that the process for engaging the External Auditors followed proper process and guidelines.
- Approval of the revised policy CG024 for the engagement of External Auditors for non-audit work.

## **3. Recommendation**

The Board notes the key decisions taken by the Audit Committee.