

**Agenda item 3.iii**

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| <b>Report to:</b>                              | <b>Board of Directors</b>  | <b>Date: 4 April 2024</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 11 March 2024</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**

**Summary**

Whilst a discussion was held about the Board Assurance Framework (BAF) to get some clarification on some of the wording, there was not a lot of time spent on this topic as this was discussed in depth at the Trust Boards’s meeting on the 7 March 2024.

The progress reports and the annual plans for 2024/25 were received from BDO Internal Auditors (IA) and Local Counter Fraud Specialist (LCFS).

The Committee discussed the finalised Internal Audit report for Key Financial Systems and the level of assurance which was substantial overall.

The External Auditors, KPMG, reported on their preparation for the year end audit and advised on the Indicative External Audit plan for the year ending 31<sup>st</sup> March 2024. They noted some of the technical issues that will need to be considered which complemented the exceptionally good paper presented by the Interim Chief Finance Officer (CFO) later in the agenda,

As well as discussing the standing agenda items of: Conflicts of Interest compliance, Bad Debt Write Offs, Losses and Special Payments and Waivers to Standing Financial Instructions (SFIs) we had a long-awaited paper on the Trust’s Net-Zero Sustainability Plan from the Director of Estates.

**BAF & Governance Assurance Overview**

It was acknowledged that more work is still required to get the BAF to state where the Board is satisfied with its effectiveness. As this topic was discussed for a length of time at the Board on

7 March 2024, it was felt that the Audit Committee discussion was not going to add anything more.

However, the Assurance Map as part of the Governance Assurance Overview was discussed. It was agreed to support the Board's decision of the Assurance map being updated annually and that the update will be presented to the October meetings of the Audit Committee.

The BAF policy was approved by the Committee as the policy was not affected by the further work needed on the BAF.

*BDO Local Counter Fraud Service (LCFS)*

LCFS, at the time of the meeting had used 54 out of the potential 60 days (which includes investigations) for their counter fraud work. There is still work to be done before the financial year end on proactive exercises, completion of fraud risk assessment and year end reporting. It is envisaged that all the days will be utilised.

The LCFS Annual Work Plan for 2024/25 which had been discussed at the January 2024 meeting was brought to this meeting for approval. The approved annual workplan is for 60 days (50 proactive and 10 reactive) for the Trust. The Counter-Fraud Strategy and Annual Work Plan 2024/25 aligns with the Government Functional Standard for Counter Fraud.

The work plan also supports the NHSCFA's own strategic objectives for the period. The risks from mandate fraud and procurement fraud, both of which are a continuing area of focus for the NHSCFA in 2024/25, will be given prominence within LCFS's training and awareness raising efforts, and they propose to conduct a specific Local Proactive Exercise (LPE) designed by the NHSCFA to focus on procurement fraud risks.

*BDO Internal Audit Service (IA)*

The IA Annual Plan for 2024/25 which had also been discussed at the January 2024 meeting was presented to the Audit Committee and approved for the 130 days which we felt covered the BAF risks for 2024/25.

The audits agreed are as follows:

- Agency Expenditure
- Outpatients
- Private Patients
- Cyber Security
- Performance Reporting Framework (PIPR)
- Key Financial Systems – Cost Improvement Plans
- Electronic Patient Record System (EPR)
- Data Security and Protection Toolkit

The Committee were presented with the finalised report of the Key Financial Systems which was given an overall rating of substantial.

The Committee was concerned at yet again another delayed audit report. This was for the Equality, Diversity & Inclusion audit. However, the Committee was assured that there was good reason as it was felt that it should be discussed at the Workforce Committee before being finalised. However, the Committee did seek assurances from the Executive leads for the three audits due in May 2024 as to whether they will be on time. Assurances were given.

### Internal Audit Follow-up of Recommendations

The lack of progress on completing the recommendations from audit reports is of great concern to the Committee. There are two medium level recommendations from the 2022/23 audit on Procurement and Contract Management that are still outstanding. Despite being told that these would be completed by April 2023, a year later, in March 2024, they are still outstanding and will now be brought back to the May 2024 Audit Committee meeting. The Committee has considered whether realistic deadlines are being proposed by managers for the implementation of some recommendations. The Committee has asked that managers consider when they realistically think they can complete the recommendations and stick to those dates.

There are three recommendations (one high and two medium level) from the 2023/24 Performance and Appraisal audit which should have been implemented in December 2023.

The Committee is concerned that the lack of implementation of Audit recommendations that had been agreed by the managers to the deadlines they themselves set may impact on the Head of Internal Audit opinion. Assurance was sought and given from the Chief Executive Officer that this issue will be tackled and effectively.

### Head of Internal Audit Opinion (HoIA)

The HoIA opinion at the moment is as quoted below.

*“The internal audit service provides Royal Papworth Hospital NHS Foundation Trust with moderate assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2023/24. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.”*

The Audit Committee felt that this was a fair opinion.

However, in the report, the area under Recommendations Follow-up states:

*“Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner, then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management’s commitment to the maintenance of a robust control environment.”*

Thus there is a risk (albeit a low one) that the HOIA opinion could change adversely if positive action is not taken to resolve this issue quickly.

### KPMG External Audit

KPMG and the Trust are aiming to sign off the accounts by the 24 June 2024 at the extraordinary Board meeting ahead of the 28 June 2024 submission date. There will be an Audit Committee meeting on the 20 June for reviewing in order to give a recommendation for sign off.

KPMG are in the process of finalising their plans and interim audit procedures and are reviewing the main technical issues and how they will impact on the Trust. Special work will be carried out on PFI IFRS 16 transition as requested by the Department of Health. This will cost the Trust extra for the Audit but we have no choice on having this work done.

The Audit fees are likely to be in excess of £126k which the CFO will negotiate on.

The report on the year end technical accounting items provided by the CFO later in the agenda gave good assurance that the Trust is prepared for the accounting issues that will need to be dealt with in the accounts.

#### Bad Debt Write Offs

The Audit Committee noted the write off £11,432 by the Director of Workforce and Organisational Development in line with the Trust's Scheme of Delegation. These are for 32 salary overpayment write offs where legal action would be the next course of action, but the values of the outstanding debts were not large enough to justify the cost of legal action.

#### Losses & Special Payments

Since the 1 April 2023, £14k has been written off which includes the £11.4k bad debts write off. This is far less than the £60k (after stripping out the extraordinary write off of £360k) written off in 2023/24 and £129k in 2022/23.

#### Waivers to SFIs

There have been four waivers approved since the last Audit Committee meeting in January 2024 and there are two which are pending. Sole Supplier remains the main reason for waiver requests.

#### Managing Conflicts of Interests

This is exceptionally good news as at the time of the Audit Committee this was now at 100% compliance. This has been due to the concerted effort of the Trust Secretary and the Chief Executive. The Committee gave its thanks and has now asked this is reported annually at the March meetings.

#### Draft Annual Governance Statement and Draft Annual Audit Committee Report

These were not discussed but comments to be submitted to the Associate Director of Corporate Governance by email. The Audit Committee's self-assessment has been deferred for a special meeting to be held on 26 March 2024.

#### Trust's Net-Zero Sustainability Plan

The Director of Estates produced a long awaited paper called the "Green Plan 2022 – 2024 – current progress" which outlined the Green Plan by which the Trust will achieve its required contribution toward NHS 'Net Zero'. It was an open and honest paper and highlighted the areas that need improvement. It transpires that the Green Plan's governance structure was for the Sustainability Board (which meets monthly) to report to the Performance Committee. This has never happened.

The Audit Committee recommends that this is reinstated. It is also the opinion of the Audit Committee that this should be a standing item on the Board's agenda as part of the best practice highlighted by BDO in their briefing paper "Environmental & Sustainability"

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

- *Approval of the Board Assurance Framework Policy*
- *Approval of the BDO LCFS Annual Work Plan for 2024/25*
- *Approval of the BDO IA Annual Work Plan for 2024/25*
- *The Audit Committee recommends the re-establishment of the Sustainability Board reporting to the Performance Committee*

## **3. Recommendation**

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