

**Report to the Board of Directors, 6<sup>th</sup> July 2015**  
**Report from the Audit Committee June 2015**

**Purpose**

To summarise the proceedings of the Audit Committee held on 4 June 2015.

The meeting focused on the Annual Accounts, Audit opinion and Internal Audit plan for 2015/16.

**1. External Audit**

2014/15 Audit

At the time of the meeting the audit was still in progress and had not yet come to a final conclusion;

- Definition of the 'materiality' applied to the audit was initially defined as 1% of operational expenditure or £5.2m but subject to review as the audit proceeded
- There was also an issue of 'triviality' and since issuing the audit plan, the triviality level had been changed to 5% of the reported adjusted retained surplus in the draft financial statements or £5,100

Main findings;

- There was no evidence of material manipulation of financial performance to achieve financial targets
- Material mismatches in income and receivable balances between the Trust and NHS counter parties in the NHS Agreement of Balances had been identified. In summary evidence was required for £6m to support the Trusts financial statements
- Economy, efficiency and effectiveness; consideration was been given to the need to make a referral under section 19 of the Audit Commission Act 1998 in respect of the Trust planned deficit of £19m for 2015/16. This would place the Trust in a position of cumulative deficit with the likelihood that this deficit would not be recovered over a 3 year period hence the Trust would not achieve its statutory duty to break even over this period
- With uncertainty over the Trust financial position the audit could not conclude that proper arrangements to secure economy, efficiency and effectiveness in its use of resources were in place in 2014/15
- The standard assurance letters from the CFO and Audit Chair had been prepared and submitted
- A Reasonable Assurance opinion on internal control was provided by Internal Audit for 2014/15

The Committee agreed to further discussions with the auditors with regard to the work outstanding prior to the final submission to the TDA.

**2. Internal Audit**

**Annual Plan 2015/16**

The internal audit annual plan for 2015/16 is part of a 3 year strategy and was developed in discussion with the Trust and members of the Audit Committee and has been shared and discussed with the Executive.

The Committee discussed the priorities and allocation of time within the plan with the following key messages emerging:

- Time allocated to the Values and Behaviours audit appeared excessive and less of a priority than, for example, work around the Board performance dashboard and data quality
- Complaints and whistle-blowing; the timing and scope of this audit was probed and it was agreed to bring the work forward
- Concerns in respect of the booking hub its costs and benefits, theatre utilisation and consultant job plans were also aired

It was agreed that Internal Audit would revise the plan and its timing and priorities to reflect the discussion at the Audit Committee.

### **3. Local Counter Fraud Specialist (LCFS)**

The 2014/15 Counter Fraud Annual Report was presented and described the range of proactive and reactive work undertaken. Highlights included;

- The theft of controlled drugs, which led to a suspended custodial sentence and a referral to the NMC
- 32 fraud referrals cases were investigated in 2014/15 and in excess of £71k of fraud was identified compared with circa £38k in 2013/14
- A self-assessment against the NHS Protect standards which provided an overall assessment of Green against those standards

To raise awareness of counter-fraud within the Trust the Director of Corporate Affairs will explore publicity with the Director of Communications.

The Committee believes that LCFS has a key role to play in respect of 3Ts governance with a particular emphasis on potential fraud along with support and the involvement of Procurement.

## **4. Risk & Assurance**

### **4.1 Financial Plan**

The financial plan for 2015/16 has moved from breakeven to a £19m deficit. The plan is with the TDA with no feedback received to date; the uncertainty around the financial plan for 2015/16 was as a result of delays in agreeing the national tariff position and commissioning plans.

The Committee voiced concern regarding the effectiveness of the review of the monthly management accounts and in particular the cost and control of all resource (nurses, locums and the booking hub were of particular concern).

### **4.2 Quality and Risk Committee**

The Report from the Quality and Risk Committee was noted. Areas highlighted from this report have been reported separately to the Board.

### **4.3 Finance and People Committee**

The Report from the Finance and People Committee was noted. Areas highlighted from this report have been reported separately to the Board.

#### **4.4 Procurement**

An update on progress of the procurement strategy was reviewed noting the objective to deliver £20.5m of efficiency savings over 3 years through a combination of tighter housekeeping, commercial rigour and supply transformation.

Savings made to date: £3.9m in 2012/13, £4.8m in 2013/14 and £6.9m in 2014/15.

Further work required;

- Improve governance for example on inventory, including stores and holding excessive stock
- Capitalise on efficiency opportunities throughout the Trust supply chain

The Committee noted the importance of ensuring tighter control over order payments particularly in the Corporate areas including agency staffing.

#### **Recommendation to the Board**

The Board is recommended to note this report.

Lewis Doyle  
**Chair Audit Committee**  
**6 July 2015**