

AUDIT COMMITTEE

ANNUAL REPORT 2018/19

1. Introduction

It is the delegated responsibility of the Audit Committee to oversee the establishment and maintenance of an effective system of internal control to meet the achievement of the Trust's objectives. The Committee provides the Trust Board with assurance on the adequacy and effectiveness of the systems of internal control, risk management and governance within the Trust.

This Annual Report of the Audit Committee to the Trust Board for the financial year ended 31 March 2019 reports on the work of the Committee for the financial year under review in its discharge of its oversight responsibilities to the Board, and thereby complies with Good Practice Principle 6 (Communication and reporting) of the Department of Finance Audit and Risk Assurance Committee Handbook NI (April 2018). The report is timed to support the preparation of the Governance Statement and includes an assessment of the Governance Statement for 2018/19 based on a review of governance, risk management and internal control across a planned range of activities during the year.

2. Chair's Foreword

In presenting this Annual Report of the Audit Committee of the Trust, I wish to place on record my thanks to my Non-Executive Director colleagues for their support and effective contribution to the successful operation of the Audit Committee. On behalf of the Committee, I wish to express appreciation to the Director of Finance, Procurement and Estates and her staff, the Head of Internal Audit and her staff, the NIAO Director and the Audit partners, Grant Thornton and their staff, the Board Assurance Manager and the Committee Secretary for their work during the year.

3. **Membership of the Committee and attendance**

The membership of the Audit Committee and attendance during the year is set out below:-

Name of Audit Committee member	No. of Meetings attended	No. of Possible Meetings	Comments
Mrs H McCartan Non-Executive Director (Committee Chair)	5	5	
Mrs P Leeson Non-Executive Director	4	4	Stepped down on 01/01/2019 to take up membership of the Remuneration Committee
Mr M McDonald Non-Executive Director	5	5	
Ms E Mullan Non-Executive Director	1	5	
Mrs S Rooney Non-Executive Director	1	1	Joined the Committee on 01/01/2019 after stepping down from the Remuneration Committee
Mr J Wilkinson Non-Executive Director	4	5	

The Director of Finance, Head of Internal Audit, Business Services Organisation (BSO), representatives of the Northern Ireland Audit Office (appointed auditors) and their sub-contracted auditors (Grant Thornton) are in attendance. The Committee has adopted the practice of inviting Trust Directors to attend Committee meetings where less than satisfactory assurance has been received from Internal Audit for an area subject to audit within their responsibility. In this context, relevant Directors attended meetings throughout the year to provide assurance on actions being taken to address the control weaknesses identified.

A representative from the Department of Health attends at least one meeting of the Audit Committee per year. A representative attended the 19th April 2018 meeting.

4. **Terms of Reference for the Committee**

The Audit Committee's Terms of Reference were updated in February 2019 to align with the Department of Finance Audit and Risk Assurance Committee Handbook (NI) April 2018. The revised Terms of Reference were subsequently presented and approved by Trust Board in March 2019.

5. **Meetings of the Committee**

- i) The Committee is required by its Terms of Reference to meet not less than 3 times per year. During the year commencing 1 April 2018, the Audit Committee met on 5 occasions as detailed below:-

19th April 2018

3rd May 2018

5th June 2018 * **

11th October 2018

14th February 2019

* This meeting included a private meeting between the Audit Committee and the Internal and External Auditors

** In line with good practice, this meeting was attended in part by the Trust's Chief Executive

The Committee also met in private on 1 occasion during the year.

- ii) Formal minutes were recorded of each meeting and these were approved at the subsequent meeting. Minutes of meetings reflect discussions held by the Committee and any actions agreed.
- iii) The Committee has an appropriate process between meetings in place for actions/matters arising from Committee business to be appropriately pursued by the relevant member/Director.
- iv) The Committee has a process in place for recording declarations of conflicts of interest and this mirrors the process used at Trust Board level.

6. Reporting to Trust Board

Formal minutes were reported on and approved at the subsequent Board meeting, following Committee approval.

Following each Audit Committee meeting, the Audit Committee Chair meets with the Trust Chair and Chief Executive and provides a written summary report on the meeting. The Audit Committee Chair presents this summary report to the next Trust Board meeting.

7. Learning and Development

Training and development is a standing agenda item and members are notified of relevant courses to meet their ongoing training and development needs. Non-Executive Directors have expressed their desire for a joint session with other Audit Committee members regionally in terms of networking and shared learning.

8. Work Programme

In line with best practice, the Audit Committee developed a core work programme for the year under review and this was approved by Trust Board in March 2019.

9. Internal Audit Services

9.1 Provider

Internal Audit Services for 2018/19 were provided by the Business Services Organisation (BSO) through a Service Level Agreement with the Trust.

The primary objective of Internal Audit is to provide an independent and objective opinion to the Accounting Officer, the Board and the Audit Committee on the adequacy and effectiveness of the risk, control and governance arrangements. The work of the Internal Auditor is informed by an analysis of risk to which the Trust is exposed and annual audit plans, approved by the Audit Committee, are based on this analysis.

The agreed fees for 2018/19 were based on a Service Level Agreement with the Business Services Organisation. Planned inputs of some 990 days were agreed by the Audit Committee for 2018/19.

The Internal Audit Plan for 2018/19 was approved by the Committee in April 2018. This plan was delivered in 2018/19 with the Committee considering reports from the Internal Auditor covering the following systems:

AUDIT ASSIGNMENT	LEVEL OF ASSURANCE
FINANCE AUDITS	
Payments to Staff	Limited
Management & Use of Health Roster	Limited
Non-Pay Expenditure within the Mental Health Directorate	Satisfactory
Cash Management in Cash Offices	Satisfactory
Asset Management	Satisfactory
Management of Contracts with the Voluntary sector (including Sure Start)	Limited
Management of Patient Private Property in Acute Hospitals	Satisfactory
Management of Clients Monies and Cash Handling in Social Services Facilities	Satisfactory (9 facilities)
Management of Client Monies in Independent Sector Homes	Limited – 1 Home Satisfactory – 9 Homes
Estates Procurement & Contract Management	Satisfactory
Ordering and Receipt of Goods	Satisfactory
Management of Trust Homecare within the Older People & Primary Care Directorate	Unacceptable
Visits to 2 Independent Domiciliary Care Providers (Peacehaven Care Services and Lydian Care) <i>Note: Peacehaven Audit Work Completed in 2017/18 and finalised in 2018/19</i>	Lydian – Unacceptable Peacehaven - Limited
SHSCT's Compliance with DoH Permanent Secretary's Instructions Regarding Travel (primarily travel outside Ireland and Britain)	Satisfactory
CORPORATE RISK AUDITS	
Children's & Young People Directorate Risk Audit - Management of Children with Disabilities Services	Limited
Management of Standards and Guidelines	Limited

AUDIT ASSIGNMENT	LEVEL OF ASSURANCE
Care/Case Management within Older People and Primary Care (OPPC) Directorate.	Satisfactory
GOVERNANCE AUDITS	
Risk Management	Satisfactory
Board Effectiveness	Satisfactory
Infection Prevention and Control (IPC)	Satisfactory - Oversight of compliance with Policies & Procedures, IPC Audit and training Limited - Anti-microbial Stewardship
Cyber Security	Limited/Satisfactory elements of opinion
Mortality and Morbidity processes (specifically mortality)	Limited

In addition, Internal Audit conducted a number of other assignments during the year which included:

- Management of theatre utilisation
- Management of waiting list initiative payments focused on the implementation of recommendations contained in the 2016-17 Internal Audit of Waiting List Initiative Payments.
- Follow up visits to two independent domiciliary care providers where limited assurance had been given in 2017-18 and 2018-19.

Shared Service Audits

During 2018/19, a number of audits (summarised below) have been conducted in BSO Shared Services as part of the BSO Internal Audit Plan. As the Trust is a customer of BSO Shared Services, a summary of the following final audit reports were discussed by the Audit Committee:-

Shared Service Audit	Assurance
Payments processing in Accounts Payable Shared Services	Satisfactory
Payroll Shared Service (as at September 2018 and March 2019)	Limited

Business Services Team	Satisfactory
Recruitment Shared Services	Satisfactory

The Payroll Shared Service has remained as having limited assurance in 2018-19. Whilst a number of prior year priority one recommendations have progressed, four new priority one recommendations have been raised, along with further priority two recommendations. 54% of previously agreed recommendations are not fully implemented.

Internal Audit also followed up on the implementation of priority one and priority two BSO shared service recommendations at the end of 2018-19. In total, 123 BSO shared service recommendations (including payroll) were followed up. 99% of these recommendations have been fully or partially implemented and 1% was not yet implemented at the time of review.

The Head of Shared Services and the Head of Payroll Shared Services provided a written update on progress on the payroll shared services action plan to the Audit Committee meeting on 9th May 2019. At that meeting, the Committee received a provisional letter of assurance from the Chief Executive BSO, together with their draft Governance Statement for 2018/19.

The Audit Committee expressed disappointment at the continued limited assurance on payroll. Progress will continue to be monitored by the Audit Committee.

9.2 Controls Assurance

In addition to the substantive audit assignments identified at 8.1, Internal Audit reviewed the Trust's assurance process, following cessation of the Department of Health centrally managed controls assurance standard process. Internal Audit concluded that these processes were adequate to provide appropriate assurances internally in the areas previously covered by the Controls Assurance Standards.

A report on the outcome of the Controls Assurance process for 2018/19 was presented to the Audit Committee on 9th May 2019. The Committee acknowledged the positive year-end outcome with 17 areas achieving a RAG rating of green and 5 areas a RAG rating of amber. The Audit Committee is satisfied that action plans

are in place to improve the position and will be monitored in 2019/20.

9.3 Follow Up Reviews

At year end, Internal Audit followed up in respect of the implementation 336 previous priority one and two Internal Audit recommendations agreed in Internal Audit reports. Significant progress was made during the year on implementation of outstanding recommendations with 99% of these recommendations fully or partially implemented. Of the remaining 1%, there were no priority one recommendations.

The Director of Finance set up an Internal Audit Forum with representatives from all Directorates to focus on outstanding internal audit recommendations during the year and this significantly contributed to the improvements achieved in this area.

Where it is within the control of the Trust to do so, any remaining recommendations will be progressed in 2019-20.

9.4 Internal Audit Annual Report

The Head of Internal Audit is required to provide an annual opinion on the Trust's risk management, control and governance arrangements which is based on the work performed in fulfilment of the Internal Audit Plan. The purpose of the annual opinion of the Internal Auditor is to contribute to the assurances available to the Accounting Officer and the Board which underpin the Trust's own assessment of the effectiveness of the system of internal control, which in turn informs the Governance Statement.

In her annual report, the Head of Internal Audit provided satisfactory assurance on the adequacy and effectiveness of the Trust's framework of governance, risk management and control. However it is highlighted that limited assurance has been provided in a number of areas, including cyber security and that unacceptable assurance is provided in respect of the management of Trust homecare. This opinion is based on an assessment of the range of individual opinions arising from the audit assignments reported on during 2018/19 (refer 8.1).

9.5 Progress Reports on Internal Audit Recommendations

The Audit Committee focused on assuring itself that there was an effective process within the Trust for addressing Priority Audit Findings and received assurance from the Director of Finance, Procurement and Estates that progress on the implementation of Internal Audit recommendations forms an agenda item as part of regular Director Accountability meetings with the Chief Executive to emphasise the importance of completion of accepted recommendations.

Work continues on improving the progress reports to Audit Committee in this area jointly between the Trust and Internal Audit. Internal Audit provided their update on the implementation of all outstanding Internal Audit recommendations for the October and April meetings to help inform the Trust's assessment of its internal control environment.

In order to further strengthen this oversight by Audit Committee, the Trust provided an update on the implementation status of outstanding priority one recommendations to the February 2019 Audit Committee. This was an unaudited position, but allowed Committee members to seek further assurances in some areas.

9.6 Performance of Internal Audit

External Quality Assessment

The annual Internal Quality Assessment was completed by BSO Internal Audit during 2018/19, to confirm compliance with the Public Sector Internal Audit Standards (PSIAS). The positive outcome of this internal assessment was then subject to review during the External Quality Assessment (EQA) performed by the Institute of Internal Audit during February/March 2019.

They concluded that the BSO Internal Audit Service meet the vast majority of the Standards, as well as the Definitions, Core Principles and the Code of Ethics, which form the mandatory elements of the Public Sector Internal Audit Standards and the Institute of Internal Auditors' International Professional Practices Framework, the globally recognised standard for quality in Internal Auditing. Results were very positive, confirming that the Unit conforms with 60 out of 62 applicable areas of the professional standards and partially conforms in the remaining 2 areas.

PERFORMANCE INDICATORS

Key Performance Indicator	% Achieved in 2017/18 for SHSCT	% Achieved in 2018/19 for SHSCT
100% Delivery of Annual Audit Plans	100% (100%*)	100% (97%*)
85% of First Draft Reports Issued within 4 weeks of fieldwork completion	62%	66%
75% of reports finalised within 5 weeks of issue (and within 1 week of receiving management comments)	62% (83%)	72% (86%)
<i>75% Management Comments should be received within 4 weeks</i>	55%	62%
% of reports significantly amended between draft report and final report stage ¹	0%	0%

(*Actual delivery against SLA audit days)

The Audit Committee is pleased to report that Internal Audit reports presented to the Committee are rigorous and of a high standard.

10. External Audit Service

10.1 Introduction

The Northern Ireland Audit Office (NIAO) provides the Trust's external audit service. The Comptroller and Auditor General (C&AG) appointed Grant Thornton to undertake the audit on its behalf for a 3 year period with effect from 2017/18, with the possibility of a 2 year extension. The Trust is currently in the second year of the 3 year period.

10.2 External Audit 2018/19

The Audit Committee notes that Grant Thornton will present the findings of the external audit of the Trust's financial statements for the year ended 31 March 2019 in their Report to those Charged with Governance at the Audit Committee meeting of 4th June 2019.

The Trust has met the timeframes stipulated under the faster closing initiative, namely to have their 2018/19 Annual Report and Accounts prepared and audited by 14th June 2019. The accounts are to be laid before 28th June 2019.

¹. Significant change is defined as change in assurance level provided in report, a priority 1 recommendation being completely removed from report, or significant changes in a number of key findings.

10.3 External Audit Strategy for 2018/19

The Audit Partner presented the External Audit Strategy for the financial year ended 31 March 2019 to the Committee at its meeting held on 14th February 2019.

10.4 Progress Reports on External Audit Recommendations

The Audit Committee received regular updates from the Director of Finance, Procurement and Estates and Assistant Director of Finance who maintains a log of outstanding recommendations. During 2018/19, the Audit Committee monitored progress on all external audit recommendations arising from the 2017/18 external audit.

10.5 Performance of NIAO//Grant Thornton

The Audit Committee is pleased to report that External Audit reports presented to the Committee are rigorous and of a high standard.

In line with good practice, the Committee will have a private meeting with the External Auditors at its meeting of 4th June 2019.

11. Audit Committee – Self Assessment

The Audit Committee assessed its effectiveness against the National Audit Office (NAO) Audit Committee self-assessment checklist in June 2018. The results demonstrated that the Audit Committee is operating effectively and complying with Audit Committee best practice. An action plan has been progressed during 2018-19 to take forward issues that required to be addressed

The Committee will complete the self-assessment for 2018/19 at its meeting on 4th June 2019.

12. Financial Reporting and the Governance Statement for 2017/18

In line with best practice, the Audit Committee reviewed the Trust's Draft Accounts at its meeting on 9th May 2019 prior to external audit. The Committee will review the Final Accounts and Annual Report for the year ended 31 March 2019 at its meeting on 4th June 2019. Subject to the Committee being satisfied that the

accounts have been extensively reviewed by management, the External Auditor and the Committee, the Audit Committee will recommend the final approval of the Annual Report and Accounts to Trust Board at its meeting on 12th June 2019.

The Mid Year Assurance Statement as at 30 September 2018 and the draft Governance Statement for the year ended 31 March 2019 were reviewed by the Audit Committee for adequacy and completeness and for consistency with the Committee's understanding of the internal control environment before formal approval by the Board. There were no substantive issues which required to be addressed. The Committee was content with the Accounting Officer's assessment of the system of internal control operational within the Trust in 2018/19. The draft Governance Statement was adjusted following some feedback received from the Department of Health and external auditors in May 2019. The Committee will also consider the draft Report to those Charged with Governance from Grant Thornton/NIAO for the year ended 31 March 2019 at its meeting of 4th June 2019.

13. **Fraud**

Fraud is a standing item on the Audit Committee's agenda and all identified actual, suspected and potential frauds are reported to the Committee. During the year, 26 cases of suspected fraud were reported by the Trust to the Committee, of these 5 cases were reported via the regional fraud hotline, including one which may involve the Trust. Of the 26 cases, 14 required investigation of staff pay and allowances claims.

The Committee considered the Department of Finance Annual Theft and Fraud Report for 2017/18, the BSO Counter Fraud and Probity Services 2017/18 End of Year Report and the Departmental Circular – Fraud Proofing Guidance during the year.

The Trust participates in the National Fraud Initiative. The Audit Committee will be updated on the 2018/19 NFI exercise at its meeting on 4th June 2019.

14. **Other Matters**

The Terms of Reference for the Committee require it to consider a number of matters not dealt with above. The Committee would

wish to acquaint the Board with its work in the areas described below:-

(a) Losses and Special Payments

The Committee reviewed the Statement of Losses and Special Payments for 2018/19 and recommended its approval by Trust Board in June 2019.

(b) Post Project Evaluations

The Committee received a summary report on Post Project Evaluations completed for major projects and programmes during 2017/18 and particularly focused on the key lessons learned.

(c) Direct Award Contract

In line with good practice, the Committee reviewed a list of approved Direct Award Contracts for 2017/18. A list for 2018/19 will be presented at the 4th June 2019 meeting.

(d) Standing Orders and Standing Financial Instructions

The Committee reviewed the Trust's updated Standing Orders, Reservation and Delegation of Powers and Standing Financial Instructions at its meeting on 19th April 2018 and recommended these to Trust Board for approval.

15. Summary

Remit

The Audit Committee recognises that the Trust Board is ultimately responsible for the system of internal control, the management of risk and the governance framework. Management is responsible for implementing Board policies on risk and control. The Board has delegated to the Audit Committee responsibility for an assessment of the effectiveness of the system of internal control.

The Committee is of the opinion that, for the audit year ended 31st March 2019, it has discharged its oversight responsibilities in accordance with the Terms of Reference set for the Committee by the Board. The Committee is also satisfied that it has considered its business in accordance with best practice.

Assurance

The Committee in the preparation of this Annual Report sought regular assurance to enable it to report to the Board that the system of internal control is functioning effectively. The principal sources of assurance used by the Committee in the formation of its opinion are:-

- Independent Assurance
 - i) Reports in respect of individual Internal Audit assignments
 - ii) The Annual Report from the Head of Internal Audit
 - iii) Meeting with Internal and External Auditors in closed session. (June each year)
 - iv) The Report to those Charged with Governance from the contracted Auditors.
 - v) Written reports to the Committee by BSO representatives and letters of assurance from the Chief Executive BSO to Chief Executives of HSC Organisations.
 - vi) NIAO Value for Money Reports
 - vii) The Chair of the Audit Committee is also a member of the Governance Committee
- Management Assurance
 - i) Reports to the Audit Committee from the Director of Finance on the progress of external audit recommendations
 - ii) On-going reporting to the Committee in respect of compliance with Departmental directions/circulars
 - iii) Director attendance at Audit Committee meetings where limited or unsatisfactory assurance has been received on Internal Audit reports
 - iv) Letter of Representation from the Accounting Officer to the NIAO

The Committee can confirm that the necessary action is being taken by management to address any significant failings or weaknesses.

The Chair of the Audit Committee has a standing item on the Governance Committee agenda to raise any area where the Committee requires further assurance, particularly in relation to those governance domains concerning clinical and social care governance, safety and quality.

The opinion of the Committee is that the assurances received from the Internal Auditor and the External Auditor and the Senior Management Team are comprehensive and reliable and sufficient to support the Board and Accounting Officer in their decision taking and their accountability obligations.

The Committee is of the opinion that the Governance Statement accurately reflects the Trust's system of internal control, governance and risk management for the financial year ended 31 March 2019. The Chair of the Governance Committee, who is also a member of the Audit Committee, confirms that the Governance Committee also reviewed the Governance Statement and endorses the Audit Committee's opinion. The Committee therefore provided a satisfactory level of assurance to the Accounting Officer to enable him to sign the Governance Statement for the year ended 31 March 2019.

Overall Conclusion

The Committee is satisfied in respect of the reliability and integrity of the assurances and of their comprehensiveness in meeting the needs of the Board and the Accounting Officer. Furthermore, the Committee is of the opinion that the assurances available are sufficient to support the Board and the Accounting Officer in the decisions taken by them and in their accountability obligations.

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M McDonald
Chair
On behalf of the Audit Committee

4 June 2019