

AGENDA ITEM NO:

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
BOARD OF DIRECTORS
THURSDAY 5 JULY 2012

Title:	AUDIT COMMITTEE ANNUAL REPORT TO BOARD OF DIRECTORS
Responsible Director:	David Burbridge, Director of Corporate Affairs
Contact:	Berit Reglar, Senior Manager Corporate Affairs Ext. 14324

Purpose:	To provide the Board of Directors with a summary of the Audit Committee's work and its opinion of the adequacy and effectiveness of the Trust's risk management, control and governance processes.
Confidentiality Level & Reason:	None
Medium Term Plan Ref:	N/A
Key Issues Summary:	<p>The attached report summarises the Audit Committee's opinion that the Trust's risk management, control and governance processes are adequate and effective and may be relied upon by the Board.</p> <p>It provides details of the information supporting that opinion, the role and operation of the Committee, the Committee's conclusions and its identified priorities for 2012/13.</p>
Recommendation:	The Board is asked to <u>ACCEPT</u> the report

Signed:	Date: 30 June 2012
----------------	---------------------------

BOARD OF DIRECTORS

THURSDAY 5 JULY 2012

AUDIT COMMITTEE 2011/12 ANNUAL REPORT

PRESENTED BY THE CHAIR OF THE AUDIT COMMITTEE

1 Introduction

- 1.1 The Committee's chief function is to advise the Board on the adequacy and effectiveness of the Trust's systems of internal control, risk management and governance and also its arrangements for securing economy, efficiency and effectiveness.
- 1.2 In order to discharge this function, the Audit Committee prepares an annual report for the Board and also for the Chief Executive in her role as Accounting Officer. This report includes information provided by the Trust's Internal and External Auditors and by other assurance providers.

2 Audit Committee's Opinion

- 2.1 The Board will recognise that no assurance given can ever be absolute. The best assurance which can realistically be provided to the Board is that there are no major weaknesses in the Trust's risk management, control and governance processes and in its other relevant arrangements.
- 2.2 The Audit Committee's opinion, based on the material summarised in section 3 below, is that there are indeed no such major weaknesses. It follows that the Audit Committee believes that the Board of Directors may reasonably rely on such processes and arrangements. This extends, in the Committee's opinion, to the Assurance Framework, to the processes for validating the Trust's compliance with the CQC Essential Standards and NHSLA Risk Management Standards and to the process for preparing the Annual Governance Statement (AGS).

3 Information supporting the Committee's Opinion

Summarised below are the key sources of information and assurance that the Audit Committee has taken into account in arriving at the opinion expressed above.

3.1 Internal Audit

- 3.1.1 The Internal Auditors, Deloitte, carried out a programme of audit work based on an annual plan agreed with and approved by the Committee at the beginning of the financial year. The plan included a contingency for additional items identified during the course of the financial year.

- 3.1.2 As a result formal core audit reports were issued, including Key Financial Controls, Asset Management, Procurement, CQC Registration, General IT Control, Statutory and Mandatory Training, Board Reporting and Governance, Assurance Framework and Risk Management Arrangements, and Temporary Nursing and Medical Staffing.
- 3.1.3 Based on the Internal Auditors' assessment of the design and operation of the Trust's Assurance Framework and associated processes, the Internal Auditors expressed the following opinion for the year 1 April 2011 – 31 March 2012:
- 'Significant' assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weaknesses in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.*
- 3.1.4 Weaknesses were identified in particular in relation to the Sage Finance system which has led to only 'limited' assurance in respect of the Trust's disaster recovery/business continuity arrangements, and password security and access control. However, at its meeting on 3 May 2012, the Audit Committee agreed that the risk is mitigated by numerous controls (e.g. segregation of duties, expenditure review, audits) and as such the risk is relatively low.
- 3.1.5 In the light of earlier recommendations by RSM Tenon, a special meeting has been arranged for the Audit Committee to discuss the Trust's disaster recovery and business continuity arrangements.
- 3.1.6 During the year, the Audit Committee members met privately with the Internal Auditors. This type of meeting, which is in line with best practice in corporate governance, provides an important opportunity for the Committee members and/or the Internal Auditors to identify and discuss any confidential concerns or issues.

3.2 External Audit

- 3.2.1 The audit opinion of the External Auditors, KPMG, for 2011/12 was that the Trust's financial statements gave a true and fair view of the state of affairs at UHB as at 31 March 2012 and of its income and expenditure for the year then ended.
- 3.2.2 During the year, the Audit Committee members met privately with the External Auditors. This type of meeting, which is in line with best practice in corporate governance, provides an important opportunity for the Committee members and/or the External Auditors to identify and discuss any confidential concerns or issues.

3.3 Other Assurance Providers

3.3.1 Local Counter Fraud Specialist (LCFS)

- a) The LCFS service is provided by Deloitte. The Audit Committee receives and approves the Annual Plan relating to counter fraud work. The number of days allocated in the Annual Plan for counter fraud work for 2011/12 was 90 days (as opposed to 52 in 2010/11).
- b) During the course of the year, the Committee received regular progress reports, together with an Annual Report. The Annual Report for 2011/12 confirmed that an effective and strong anti-fraud culture has been achieved through raising of staff awareness of the risk of fraud workshops, multiple publications in the Trust's magazine 'In the Loop' and a total of 38 staff presentations.

3.3.2 Management

- a) The Committee receives regular updates from management on progress on the implementation of agreed management action resulting from recommendations contained in internal audit reports.
- b) Where implementation of recommendations was not achieved within the recommended timeframe, the Committee sought explanations from management as to the reasons for such delays and assurance that recommendations would be implemented.

4 The Role and Operation of the Audit Committee

4.1 Membership of the Committee

4.1.1 The members of the Committee (i.e. all the Non-Executive Directors of the Trust, apart from the Chairman) during 2011/12 were as follows:

Mr David Ritchie (Chair)

Professor David Bailey

Mr David Waller (joined on 1 October 2011)

Ms Gurjeet Bains

Ms Clare Robinson (left Audit Cttee on 30 September 2011)

Ms Angela Maxwell (left Audit Cttee on 30 September 2011)

Professor Michael Sheppard (left on 30 September 2011)

Mr Stewart Dobson (left on 30 September 2011)

4.1.2 The members of the Committee disclosed their interests, which included the following, in the Trust's Register of Interests:

Mr David Ritchie (Chair) – President of Governors of the Queen’s Foundation for Ecumenical Theological Education and Trustee of UHB Charities

Professor David Bailey - Chair, Director and Trustee of the Regional Studies Association

Mr David Waller - Director and Part Owner of Network Holdings Plc, Non Executive Director of the NEC Group Ltd, Non Executive Director and Major Shareholder of Nexus Professional Network Ltd, and Director of Delami Investments

Ms Gurjeet Bains – Governor of the Birmingham Metropolitan College

Ms Angela Maxwell - Director for Acuwomen Limited; Non Executive Director at Advantage West Midlands and Director for Vibe Generation Limited

Ms Clare Robinson – None declared

Mr Stewart Dobson- Trustee of Thinktank Trust

Prof Michael Sheppard - Chairman of the Board of Bioscientifica and Chairman of the Central Technology Belt

- 4.1.3 The Committee’s principal support officer throughout the year was the Director of Corporate Affairs. The Director of Finance, the Chief Operating Officer, the Executive Director of Delivery and the Head of Governance, together with representatives of both the External and Internal Auditors, attended the meetings of the Committee as a matter of course. Other Directors and officers of the Trust attended meetings of the Committee as and when required.

4.2 Operation of the Committee

4.2.1 Meetings and attendance

The Committee is required to meet at least four times a year. A total of six meetings took place during 2011/12 and were attended as follows:

Director	No. of meetings attended
Gurjeet Bains	6 out of 6
David Bailey	4 out of 6
David Ritchie	6 out of 6
Stewart Dobson	3 out of 3
Michael Sheppard	1 out of 3
Angela Maxwell	3 out of 3
Clare Robinson	3 out of 3
David Waller	1 out of 3

- 4.2.2 The quorum for meetings of the Committee is three members. All meetings of the Committee during the period were quorate.
- 4.2.3 The Committee will be undertaking an annual self-assessment of its performance. An action plan will be developed to address those areas where improvements are considered necessary. This action plan will be monitored during the following year.
- 4.2.4 The Committee has also maintained its practice of agreeing an annual cycle of business which is designed to facilitate forward planning and to assist the Committee in ensuring that all aspects of its terms of reference are being fulfilled.

5 Priorities for 2012/13

The Committee has identified the following priorities for attention during the 2012/13 financial year:

- 5.1 Monitoring the effects of changes in the general economic climate on the Trust's financial position, both current and as predicted in the Trust's 2012/13 year plan;
- 5.2 Monitoring the effectiveness and robustness of the Trust's quality systems, with particular regards to the assurance requirements for the Quality Report;
- 5.3 Continuing to monitor the effectiveness and robustness of the Trust's risk management systems and its Assurance Framework;
- 5.4 Continuing to make best use of the Internal Auditors, as the "eyes and ears" of the Committee, by regularly reviewing the scope of their work so as to ensure that it appropriately reflects both the risks currently faced or anticipated and the Trust's current priorities; and
- 5.5 Reviewing accounting policies to ensure that they remain appropriate and keeping a watching brief on the ongoing impact of the introduction of International Financial Reporting Standards.

6 Recommendation

The Committee recommends the Board of Directors to receive this report on the work of the Audit Committee during the 2011/12 financial year.

David Ritchie
Chair of the Audit Committee

June 2012