

**UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
COUNCIL OF GOVERNORS
THURSDAY 23 JULY 2020**

Title:	AUDIT COMMITTEE ANNUAL REPORT TO BOARD OF DIRECTORS
Responsible Director:	David Burbridge, Chief Legal Officer
Contact:	Berit Reglar, Head of Corporate Governance/DPO, Ext 14324

Purpose:	The report provides 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 during the financial year 2019/20.
Confidentiality Level & Reason:	None
Board Assurance Framework Ref: / Strategy Implementation 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 of Directors.</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 2020/21.</p> <p>A copy of this report has been presented to the extra-ordinary Board of Directors meeting in June.</p>
Recommendations:	The Council of Governors is asked to: RECEIVE the report.

Signed: David Burbridge	Date: 15 JULY 2020
--------------------------------	---------------------------

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

BOARD OF DIRECTORS

THURSDAY 23 JULY 2020

AUDIT COMMITTEE ANNUAL REPORT TO BOARD OF DIRECTORS

PRESENTED BY 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 his 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 compliance with regulatory requirements, including the FT Code of Governance, CQC Essential (Fundamental) Standards, NHSI Well-led and Use of Resources Framework, NHSI Provider Licence, Data Security and Protection (DSP) Toolkit and 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 External Audit

- 3.1.1 Due to the ongoing national response to Covid 19, the external audit on the financial accounts had been delayed and the audit of the quality accounts cancelled. Furthermore, the implementation of IFRS 16 had been deferred until 2021/22.
- 3.1.2 In 2018/19, the Trust received an unmodified limited assurance opinion on the content of the Quality Report and the 'A&E four-hour wait' and the 62 day Cancer Waits and the local SHMI indicators. There were two recommendations for the 62 day cancer waits indicator. There was also one recommendation for the local indicator

(SHMI). The Trust has implemented all of the three recommendations to date.

- 3.1.3 As in previous years, members of the Audit Committee met privately with the External Auditors. This type of meeting, which is in line with best practice in corporate governance, provided an important opportunity to identify and discuss any confidential concerns or issues.

3.2 Internal Audit

- 3.2.1 KPMG's Head of Internal Audit Opinion for 2019/20 is one of 'significant assurance with minor improvements required' on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- 3.2.2 The Head of Internal audit opinion is derived from a programme of reviews on the Trust's core controls. In 2019/20, a key focus of all core reviews has been the integration of QE and HGS sites. These core internal audits (key financial controls, payroll, payroll bureau, board assurance framework (BAF) and risk management) all received a "*significant with minor improvements opportunities*" assurance rating. One core review (Data Security and Protection Toolkit) resulted in "*partial assurance with improvement required*". It was acknowledged that notwithstanding the assurance rating, the Trust had made significant progress in completing its assessment ahead of the submission deadline of 31 March 2020 and based on the completion of the assertions audited, the Trust was in a stronger position than most other trusts.
- 3.2.3 In addition to core work informing the Head of Internal Audit opinion, the Board of Directors prioritised a series of risk based reviews. The Trust received a risk review on Equality & Diversity which resulted in "*significant assurance with minor improvement opportunities*", as well as four risk reviews (Patient Experience/Complaints, Serious Incident Response, Health & Safety and Divisional Governance) which resulted in "*partial assurance with improvement required*".
- 3.2.4 As part of the Progress update reports, the Audit Committee also received a summary of old, outstanding recommendations made during the previous financial year 2018/19 and benchmarking data on matters such as EBITDA, underlying year end forecasted surplus/deficit as a % of income; agency spend; CIPs, etc.
- 3.2.5 Members of the Audit Committee met privately with the Internal Auditors in order to identify and discuss any confidential concerns or issues which have arisen during 2019/20.

3.3 Other Assurance Providers

- 3.3.1 Local Counter Fraud Specialist (LCFS)
- (a) The LCFS service is provided by Deloitte. The Audit Committee received and approved the Annual Plan relating to counter fraud work. At the time of writing the report, a total of 87 days had been spent on pro-active counter fraud work, whilst an additional 50 days had been spent undertaking preliminary enquiries into the validity of 41 referrals received,

resulting in 7 investigations.

- (b) The preventative work focused on continuous controls monitoring, pre-employment agency checks, pharmaceutical disclosure review, management and control of prescriptions, staff awareness of phishing attacks, locum employment and patient travel expenses claims.
- (c) In addition, particular emphasis was placed on raising staff awareness for potential fraud which was facilitated through fraud awareness stands, intranet updates, online awareness articles, presentations and publicity of NHS CFA television shows. The effectiveness of this work was demonstrated through the increase number of referrals received. However, there was further room for improvement.
- (d) For the first time in the history of the LCFS, the scheduled work plan had not been completed owing to the interruption caused by covid-19. For the same reason, the planned phishing exercise had been delayed, but would resume at a later date.

3.3.2 Financial Reporting

- (a) Throughout the reporting year, the Committee received regular progress reports on the Single Tender Quotes/Approvals; Long Term Financial Plan and Review of Losses and Special Payments.
- (b) Due to national efforts to respond to Covid 19, NHSE/I had issued a holding statement on 'Going concern' with further guidance to follow.

3.3.3 Management

- (a) The Committee received quarterly updates on clinical governance audit activity, complaints, incidents and claims; a bi-annual health & safety report; annual reports on compliance with the Freedom of Information Act 2000; compliance with the policy on controlled documents, as well as Research Governance.
- (b) It further received regular updates from management on progress on the implementation of agreed management action resulting from recommendations contained in internal audit reports. Where implementation of agreed 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.
- (c) Quarterly assurance reports on cyber security and compliance with the General Data Protection Regulation (GDPR) were considered. Presentations were provided on patient level costings (PLICS) by the Head of Contracting and Senior Costing Accountant, Use of Resources by the Head of Productivity & Financial Improvement and Consultant Job Planning by the Consultant Anaesthetics for Critical Care.
- (d) The Committee received the annual report on Compliance with

the Monitor's Code of Governance. It was concluded that the Trust would have to make the same declaration under the 'comply and explain' rule as in previous financial years: The Trust decided not to obtain external advisors to market test the remuneration levels of the chair and other NEDs at least once every three years since remuneration levels have been limited to small 'cost of living' expenses in line with those made to NHS staff.

- (e) The Committee further reviewed the draft Annual Governance Statement (AGS) prior to its approval at the special purpose meeting in June.

4. The Role and Operation of the Audit Committee

4.1 Membership of the Committee

4.1.1 The members of the Committee during 2019/2020 were as follows:

Ms Karen Kneller – Chair

Ms Jane Garvey

Ms Jackie Hendley

Mr Harry Reilly

Dr Jason Wouhra

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

Ms Karen Kneller - CEO of Criminal Cases Review Commission; Fee Paid Judge Social Entitlement Chamber; Fitness to practice member for General Dental Council; Director (unremunerated) of BRAP an equalities think tank.

Ms Jane Garvey – nil declared

Ms Jackie Hendley - Member of Executive Committee of Sutton Coldfield Chamber of Commerce; Director - SC Advisory Services Ltd; Director - Smith Cooper IT Services Ltd; Director - Smith Cooper Ltd; Partner/Member - SHH 101 LLP; Council Member – Greater Birmingham Chamber of Commerce; Regional Vice Chair – West Midlands Institute of Directors.

Mr Harry Reilly – Director – Galtons and Associates Limited; Chairman – British American Business Council Midlands; Chairman – Ashwell Corporation Limited; Chairman – Economic Growth Solutions Limited; Chairman – Biotronics Limited.

Dr Jason Wouhra – Director & Company Secretary - East End Foods plc, Patron – Acorns Children's Hospice.

The Committee's principal support officers throughout the year was the Chief Legal Officer, Chief Financial Officer, Director of Finance and Head of Corporate Governance who, 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 Terms of Reference

The Committee reviewed the terms of reference and adjusted it to take account of the new composition of the Committee and good governance practice.

4.2.2 Meetings and attendance

The Committee is required to meet at least four times a year. A total of six ordinary meetings took place during 2019/2020 and were attended as follows:

Director	No. of meetings attended
Karen Kneller	6
Jane Garvey	6
Jackie Hendley	5
Harry Reilly	6
Jason Wouhra	3

The quorum for meetings of the Committee is two members. All ordinary and extraordinary meetings of the Committee during the period were quorate.

4.2.3 Induction/Training/Self-assessment

All Committee members receive Trust induction upon joining the Trust as well as bespoke training during the financial year.

The annual self-assessment for 2019/2020 is under way and its findings will be reported to the Council of Governors' meeting in July 2020.

4.2.4 Annual Cycle

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.

4.2.5 Reports

During the reporting period, the Audit Committee submitted formal reports to the Board of Directors' meetings following each Audit Committee meeting.

5. Priorities for 2020/21

The Committee has identified the following priorities for attention during the 2020/21 financial year:

5.1 Monitoring the effects of changes in the general economic climate (including

- covid-19 and BREXIT) on the Trust's operations and financial position
- 5.2 Monitoring the ongoing transformation following the acquisition of Heart of England NHS Foundation Trust and emergence of new digital services
 - 5.3 Monitoring the Trust's cyber security controls and assessing the Trust's security arrangements against cyber risks (including cloud) against the backdrop of increased digital services
 - 5.4 Monitoring the procurement of new Trust Finance systems
 - 5.5 Monitoring the effectiveness and robustness of the Trust's quality systems (including Data Quality), with particular regards to the assurance requirements for the Quality Report
 - 5.6 Continue to monitor the effectiveness and robustness of the Trust's risk management systems and its Assurance Framework
 - 5.7 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
 - 5.8 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. Re-appointment of the External Auditors (Deloitte) for 2020/21

- 6.1 Under Monitor's FT Code of Governance, the Council of Governors is required to approve the appointment, annual reappointment and removal of External Auditors. The Audit Committee is to support the Council of Governors in this task by providing information on the External Auditor's performance.
- 6.2 The Audit Committee has used the evaluation form from previous years to assist it in evaluating the performance of the External Auditors. The form has been disseminated and returns collected. No areas of concern have been raised.
- 6.3 At the May Council of Governors meeting, the CFO provided an update on the External Audit contract and tender. Owing to covid-19, it was agreed to extend the contract by a further 12 months to cover the financial year 2020/21 and to conduct the tender (also including Internal Audit and LCFS services) in readiness for 2021/22.

7. Recommendation

The Committee recommends the Council of Governors to receive this report on the work of the Audit Committee during the 2019/2020 financial year.

**Karen Kneller,
Chair of the Audit Committee**

