

**UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST**

**COUNCIL OF GOVERNORS**

**FRIDAY 21 JULY 2017**

<b>Title:</b>	<b>AUDIT COMMITTEE ANNUAL REPORT (INCLUDING RE-APPOINTMENT OF EXTERNAL AUDITORS)</b>
<b>Responsible Director:</b>	David Burbridge, Director of Corporate Affairs
<b>Contact:</b>	Berit Reglar, Deputy Foundation Secretary, Ext. 14324

<b>Purpose:</b>	To provide the Council of Governors with a summary of the Audit Committee's work during the Financial year 2016/17.
<b>Confidentiality Level &amp; Reason:</b>	None
<b>Annual Plan Ref:</b>	N/A
<b>Key Issues Summary:</b>	<p>The Audit Committee's chief function is to advise the Board of Directors on the adequacy and effectiveness of the Trust's systems of internal control, risk management and governance and its arrangements for securing economy, efficiency and effectiveness.</p> <p>Under Monitor's FT Code of Governance, the Council of Governors is required to approve the appointment, 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.</p>
<b>Recommendation:</b>	<p>The Council of Governors is asked:</p> <ol style="list-style-type: none"> <li>1. to receive the report; and</li> <li>2. to re-appoint the External Auditors for 2017/18.</li> </ol>

<b>Authorised by:</b> D Waller	<b>Date:</b> 7 July 2017
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# UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

## COUNCIL OF GOVERNORS

FRIDAY 21 JULY 2017

### AUDIT COMMITTEE ANNUAL REPORT

#### (INCLUDING RE-APPOINTMENT OF EXTERNAL AUDITORS)

#### **1 Introduction**

- 1.1 This report provides the Council of Governors with a summary of the Audit Committee's work over the financial year 2016/17. It also makes a recommendation to the Council regarding the re-appointment of the Trust's External Auditor for 2017/18.
- 1.2 The Audit Committee's chief function is to advise the Board of Directors 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.

#### **2 Audit Committee's Opinion**

- 2.1 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 was presented to the Board of Directors' meeting in May 2017. It included information provided by management, the Trust's Internal and External Auditors and Local Counter Fraud Specialists (LCFS).
- 2.2 Based on the aforementioned reports, a summary of which is provided below, the Audit Committee has been able to assure the Board of Directors that there are indeed no such major weaknesses. This extends, in the Committee's opinion, to the Information Governance Framework, the processes for validating the Trust's compliance with the CQC Essential (Fundamental) Standards and the process for preparing the Annual Governance Statement (AGS).

#### **3 Assurances received by the Audit Committee during 2016/17**

- 3.1 The Audit Committee has received the following assurances during 2016/17:
- 3.2 External Audit
  - 3.2.1 The audit opinion of the External Auditors (Deloitte) for 2016/17 was that the Trust's financial statements gave a 'true and fair view of the Trust's state of affairs as at 31 March 2017 and of its income and expenditure for the year then ended'.
  - 3.2.2 As part of the Quality Accounts Audit, Deloitte audited the two mandated performance indicators, '18 weeks referral to treatment' and 'Accident and Emergency 4 hour waits', as well

as the indicators '62-day cancer treatment wait' and '28 day readmissions' which were tested in this order.

- 3.2.3 The Trust received a clean 'limited' assurance opinion on the content of the Quality Report and the two mandated performance indicators, 18 weeks referral to treatment and Accident and Emergency 4 hour waits. (Due to the nature of audits, a 'limited' assurance opinion is the best possible result to be achieved.) The reviews resulted in several 'high' to 'medium' risk recommendations which are in the process of being implemented. The local indicator 'Reducing Grade 2 Hospital Acquired Pressure Ulcers', chosen by the Council of Governors, was not subject to a limited assurance opinion.

### 3.3 Internal Audit

- 3.3.1 The Trust's Internal Audit function is carried out by KPMG. The internal audit work during 2016/17 focussed on the Board Assurance Framework and Risk Management, Key Financial Controls, Payroll Bureau and UHB Payroll, IG Toolkit, Procurement – Linen and Laundry; Injury Cost recovery; E-Rostering (Allocate system) and PAS implementation. All reviews received an assurance rating of '*significant assurance with minor improvement opportunities*'.
- 3.3.2 The reviews culminated in KPMG's Head of Internal Audit Opinion for 2016/17 which stated that "*significant with minor improvements assurance can be given on the overall adequacy and effectiveness of the Trust's framework of governance, risk management and control*".
- 3.3.3 The purpose of the annual Head of Internal Audit Opinion, issued by the Trust's Internal Auditors (KPMG), is to contribute to the assurances available to the Accountable Officer (Chief Executive) and the Board of Directors on their assessment of the effectiveness of the system of internal control. It further underpins the Annual Governance Statement which forms part of the Annual Report.

### 3.4 Local Counter Fraud Specialist (LCFS)

- 3.4.1 The LCFS service is provided by Deloitte. During the course of the year, the Committee received regular progress reports, together with an Annual Report.
- 3.4.2 The preventative work focused on Consultant Job Planning; Cash Handling; Agency Pre-employment Checks and Continuous Controls Monitoring. The LCFS team further initiated a phishing simulation exercise to test the Trust's response system to a potential cyber- attack.
- 3.4.3 The Annual Report for 2016/17 confirmed that the Trust continues to maintain a strong control framework to prevent, detect and deter fraudsters. In particular, the Committee noted

the LCFS's appreciation of the Audit Committee's attention to the continuing high level of support the LCFS continues to receive from Trust Senior Management.

## 3.5 Management Reports

- 3.5.1 Throughout the reporting year, the Committee received regular progress reports from Finance on the Single Tender Quotes/Approvals; Long Term Financial Plan and Review of Losses and Special Payments, quarterly updates on Clinical Governance Audit Activity, complaints, incidents and claims; a bi-annual Health & Safety report and annual compliance reports regarding the Freedom of Information Act 2000; IG Toolkit, Research Governance and Controlled Documents (Trust policies).
- 3.5.2 Following the cyber fraud simulation exercise it was agreed to add cyber security to the Committee's annual cycle. The Committee considered the first joint Cyber Assurance Report by the Trust's IT and IG department at its April meeting. Going forward, the Committee will receive quarterly updates from the IT department.

## 4 **The Role and Operation of the Audit Committee**

- 4.1 The members of the Committee during 2016/17 were as follows:

Mr David Waller – Chair

Ms Jane Garvey

Mr Harry Reilly

Dr Jason Wouhra

- 4.2 The Committee's principal support officer throughout the year was the Deputy Foundation Secretary. The Director of Corporate Affairs, Chief Financial Officer, Director of Finance, Chief Operating Officer and Deputy Director of Corporate Affairs, 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.
- 4.3 The quorum for meetings of the Committee is two members. All ordinary meetings of the Committee during the period were quorate.
- 4.4 An annual self-assessment for 2016/17, based on the Good Governance Institute's Maturity Matrix for Audit Committees, has been undertaken. Overall it would appear that the Audit Committee is moving 'more to the right' in terms of maturity, which is the preferred direction of travel. There has been a continuous improvement in relation to 'Purpose and Mandate' and 'Independence and Initiative', a marked improvement in relation to 'Relationship with Audit' and a small improvement in relation to 'Holistic

remit'. The scores for 'Working methods' and 'Skills and experience' remain unaltered.

- 4.5 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.
- 4.6 During the reporting period, the Audit Committee submitted formal reports to the Board of Directors' meetings following each Audit Committee meeting.
- 4.7 The Committee has identified the following priorities for attention during the 2017/18 financial year:
  - 4.7.1 Monitoring the effects of changes in the general economic climate (including BREXIT) on the Trust's financial position and the Trust's ability to recruit and retain a sufficiently skilled workforce;
  - 4.7.2 Monitoring the proposed acquisition of Heart of England NHS Foundation Trust;
  - 4.7.3 Monitoring the Trust's cyber security controls;
  - 4.7.4 Monitoring the Trust's process in standardising Consultant Job Plans and their alignment with the Trust's annual capacity planning and appraisal process;
  - 4.7.5 Assessing the Trust's security arrangements against cyber risks and exploring the need to procure additional 'cyber insurance';
  - 4.7.6 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;
  - 4.7.7 Continue to monitor the effectiveness and robustness of the Trust's risk management systems and its Assurance Framework;
  - 4.7.8 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
  - 4.7.9 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.

## **5 Re-Appointment of External Auditors**

- 5.1 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.

- 5.2 The Audit Committee has used the evaluation form from previous years to assist it in evaluating the performance of the external auditors. This evaluation form was sent to all members of the Audit Committee, the Chief Financial Officer, the Director of Corporate Affairs and the Director of Finance for completion.
- 5.3 Feedback confirmed that Deloitte has continued to perform to a high standard. The subject matter of the questions and their average scores (5 being the highest possible score) are detailed below. There has been little variance to the scores achieved in 2014/15 and 2015/16:
- 5.3.1 Calibre of External Audit Firm – average score of 4.0 (compared to 4.4 in 2014/15 and 4.6 in 2015/16)
  - 5.3.2 Quality processes – average score of 3.98 (compared to 4.8 in 2014/15 and 4.5 in 2015/16)
  - 5.3.3 Audit Team – average score of 4.12 (compared to 4.3 in 2014/15 and 4.25 in 2015/16)
  - 5.3.4 Audit scope – average score of 4.16 (compared to 3.9 in 2014/15 and 4.04 in 2015/16)
  - 5.3.5 Audit communication – average score of 3.9 (compared to 3.9 in 2014/15 and 4.18 in 2015/16).
- 5.4 Deloitte were also invited to provide feedback on their interaction with the Trust's management. Deloitte's response has confirmed that there is a good working relationship with the Trust's Finance team.
- 5.5 The Audit Committee will provide feedback to Deloitte and the Trust's management. However, no areas of concern have been raised and the Council of Governors is therefore asked to approve the re-appointment of Deloitte for 2017/18.

## **6 Recommendation**

The Committee recommends the Council of Governors:

1. To receive this report on the work of the Audit Committee during the 2016/17 financial year; and
2. Re-appoint the External Auditors Deloitte for the Financial Year 2017/18.

**David Waller, Chair of the Audit Committee**

**July 2017**