

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

COUNCIL OF GOVERNORS

THURSDAY 8 SEPTEMBER 2016

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

Purpose:	To provide the Council of Governors with a summary of the Audit Committee's work during the Financial year 2015/16.
Confidentiality Level & Reason:	None
Annual Plan Ref:	N/A
Key Issues Summary:	<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>
Recommendation:	<p>The Council of Governors is asked:</p> <ol style="list-style-type: none"> 1. to receive the report; and 2. to re-appoint the External Auditors for 2016/17.

Authorised by: D Waller	Date: 7 July 2016
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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 2014/15. It also makes a recommendation to the Council regarding the re-appointment of the Trust's External Auditor for 2016/17.
- 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 2016. 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 2015/16

- 3.1 The Audit Committee has received the following assurances during 2015/16:
- 3.2 External Audit
 - 3.2.1 The audit opinion of the External Auditors (Deloitte) for 2015/16 was that the Trust's financial statements gave a 'true and fair view of the Trust's state of affairs as at 31 March 2016 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' (mandated) and '28 day readmissions' (selected), as

well as the local indicators 'pain assessment and timely administration of analgesia' which were chosen by the Council of Governors.

- 3.2.3 The Trust received a clean 'limited' assurance opinion on the content of the Quality Report and 28 day readmissions and a qualified opinion on the 18 week referral to treatment (unfinished pathways) indicator. The two local pain indicators were not subject to a limited assurance opinion, but Deloitte made two recommendations for improvement. These are in the process of being implemented.

3.3 Internal Audit

- 3.3.1 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.
- 3.3.2 KPMG's Head of Internal Audit Opinion for 2015/16 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"*.

3.4 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 continuous controls monitoring, email simulations, cyber-crime threats and overseas visitors.
- 3.4.3 The Annual Report for 2015/16 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

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).

4 The Role and Operation of the Audit Committee

4.1 The members of the Committee during 2015/16 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 Associate Foundation Secretary. The Director of Corporate Affairs, Chief Financial Officer, Director of Finance, Chief Operating Officer and Head of Clinical Risk & Compliance, 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 2015/16, based on the Good Governance Institute's Maturity Matrix for Audit Committees, has been undertaken. There has been a marked improvement in relation to the 'Relationship with External Audit'. Further, slight improvement has been made in relation to 'Purpose and Mandate', 'Holistic Remit' and 'Skills and Experience'. It has been discussed whether clinical representation would be required to deal with any clinical audit data as suggested by the key element 'holistic remit'. The current position is that the core clinical reports are reported to the Clinical Quality Committee (CCQ), a Board Sub-Committee. However, the Audit Committee still receives reports dealing with the overall processes/systems (e.g. reports on Quality Accounts; Assurance and Compliance reports). There are also good channels of communications in place between the CCQ, CQMG and Audit Committee. In light of this it was agreed that no clinical representation on the Audit Committee would be needed. Where necessary, directors with a clinical background will be asked to attend the meeting as had been done in the past.

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 2016/17 financial year:

- 4.7.1 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 2016/17 year plan;
- 4.7.2 Monitoring the implementation of PAS;
- 4.7.3 Assessing the Trust's security arrangements against cyber risks and exploring the need to procure additional 'cyber insurance';
- 4.7.4 Monitoring the effectiveness and robustness of the Trust's quality systems, with particular regards to the assurance requirements for the Quality Report;
- 4.7.5 Continue to monitor the effectiveness and robustness of the Trust's risk management systems and its Assurance Framework;
- 4.7.6 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
- 4.7.7 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:
 - 5.3.1 Calibre of External Audit Firm – average score of 4.6 (compared to 4.4 in 2014/15)
 - 5.3.2 Quality processes – average score of 4.5 (compared to 4.8 in 2014/15)

- 5.3.3 Audit Team – average score of 4.25 (compared to 4.3 in 2014/15)
- 5.3.4 Audit scope – average score of 4.04 (compared to 3.9 in 2014/15)
- 5.3.5 Audit communication – average score of 4.18 (compared to 3.9 in 2014/15).
- 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 2016/17.

6 Recommendation

The Committee recommends the Council of Governors:

1. To receive this report on the work of the Audit Committee during the 2015/16 financial year; and
2. Re-appoint the External Auditors Deloitte for the Financial Year 2016/17.

David Waller, Chair of the Audit Committee

September 2016