

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

COUNCIL OF GOVERNORS

MONDAY 20 JULY 2015

Title:	AUDIT COMMITTEE ANNUAL REPORT (INCLUDING RE-APPOINTMENT OF EXTERNAL AUDITOR)
Responsible Director:	David Waller, Char of Audit Committee
Contact:	David Burbridge, Director of Corporate Affairs

Purpose:	To provide the Council of Governors with a summary of the Audit Committee's work over the financial year 2014/15 and to make a recommendation to the Council regarding the re-appointment of the Trust's External Auditor for 2015/16.
Confidentiality Level & Reason:	NHS Confidential – Commercial
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>The Audit Committee prepares an annual report for the Board of Directors and also for the Chief Executive in her role as Accounting Officer, which includes information provided by the Trust's Internal and External Auditors and other assurance providers.</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:	The Council is asked to receive this report and approve the re-appointment of Deloitte as External Auditors for 2015/16.

Authorised by: D Waller	Date: 9 July 2015
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**AUDIT COMMITTEE ANNUAL REPORT (INCLUDING RE-
APPOINTMENT OF EXTERNAL AUDITOR)**

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 2015/16.

2 Audit Committee Annual Report

2.1 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.

2.2 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.

2.3 Membership of the Committee

2.3.1 The members of the Committee during 2014/15 were as follows:

Mr David Waller – Chair

Ms Gurjeet Bains – member until 30 November 2014

Ms Jane Garvey

Mr Harry Reilly

Mr Jason Wouhra – member since 1 December 2014

2.3.2 The Committee's principal support officer throughout the year was the Director of Corporate Affairs. The Chief Financial Officer, the Director of Finance, Chief Operating Officer, Executive Director of Delivery and 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.

2.4 Operation of the Committee

2.4.1 Meetings and attendance

The Committee is required to meet at least four times a year. A total of five ordinary meetings took place during 2014/15 and were attended as follows:

Director	No. of meetings attended
Gurjeet Bains	All*
David Waller	4
Jane Garvey	All
Harry Reilly	All
Jason Wouhra	All*

*While a member of the Audit Committee.

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

2.4.2 Self-assessment

A self-assessment has been undertaken and, once completed, will feed into an action plan.

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.

2.4.3 Reports

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

2.5 Summary of work undertaken.

2.5.1 During 2014/15, the Audit Committee considered the following significant issues in relation to financial statements, operations and compliance:

- a) Risks to the financial statements, including:
 - I. Recognition of NHS revenue;
 - II. Capital programme and valuation;
 - III. Accruals and provisions;
- b) Accounting treatment of real estate developments on and off site, including an annual revaluation of the Queen Elizabeth Hospital Birmingham, which led to a significant reversal of impairment in 2014-15, write-downs on the office buildings acquired in 2014-15 by the Trust and the disposal of the Selly Oak site;

- c) IT Business Continuity and Disaster Recovery Plans - the Committee sought and obtained assurance from the Director of IT regarding the disaster recovery plans for each of the Trust's critical IT systems;
- d) Key Financial Controls - fraud awareness, with particular regard to referral rates and false job adverts on the internet;

2.5.2 A review of the Trust's Assurance Framework, processes for validating the process for preparing the Annual Governance Statement (AGS);

2.5.3 The process for monitoring progress against Cost Improvement Plans and the impact on the Trust of potential weaknesses in the healthcare system, where the Trust is dependent upon various external bodies for assistance that may be struggling for resources, such as social services and community trusts;

2.5.4 Patient Property - the Committee sought assurance that the recommendations made in a previous report would be implemented in an effective and timely way so as to ensure that the Trust maintained a robust system to minimise the loss of patient property; and

2.5.5 The Trust's Continuity of Services Risk Rating ("CoSRR") for the next financial year in the context of the proposed tariff and contract changes.

2.6 Reference Costs 2014/15

On behalf of the Board of Directors, the Committee reviewed the Trust's costing process and systems which are submitted to the DH. This information is used to inform future years' national Payment by Results tariff, as well as used in wider benchmarking exercises and as such impacts directly upon the income received by Trust for patient care. The Committee was satisfied with the Trust's costing process and systems and that the Trust will submit its return in accordance with DH guidance.

2.7 Audit Committee's Opinion

2.7.1 In May 2015, the Audit Committee reported to the Board of Directors that, in the Committee's opinion, there were no major weaknesses in the Trust's risk management, control and governance processes and in its other relevant arrangements and that, therefore, 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 (Fundamental) Standards and to the process for preparing the Annual Governance Statement (AGS).

2.7.2 Summarised below are the key sources of information and assurance that the Audit Committee took into account in arriving at its opinion:

- a) External Audit reports;
- b) Internal Audit reports;
- c) Local Counter Fraud Specialist (LCFS) reports;
- d) Financial Reporting - regular progress reports on the Single Tender Quotes/Approvals; Long Term Financial Plan and Review of Losses and Special Payments and review of 2014/15 draft financial statements and annual report;
- e) quarterly updates on Clinical Governance Audit Activity, a bi-annual Health & Safety report; annual reports on Compliance with the Freedom of Information Act 2000; Compliance with the Policy on Controlled Documents; IG Toolkit compliance and Research Governance; and
- f) regular updates from management on progress on the implementation of agreed management action resulting from recommendations contained in internal audit reports.

2.8 Audit Committee Priorities for 2015/16

The Board has approved the following priorities for the Committee during the 2015/16 financial year:

- 2.8.1 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 2015/16 year plan;
- 2.8.2 Monitoring the effectiveness and robustness of the Trust's quality systems, with particular regards to the assurance requirements for the Quality Report;
- 2.8.3 Continue to monitor the effectiveness and robustness of the Trust's risk management systems and its Assurance Framework;
- 2.8.4 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
- 2.8.5 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.

3 **Re-Appointment of External Auditor**

- 3.1 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.

- 3.2 The Audit Committee have used the evaluation form from last year to assist it in evaluating the performance of the external auditors, This 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.
- 3.3 Feedback confirmed that Deloitte perform to a high standard. The subject matter of the questions and their average scores (out of 5) are detailed below:
- 3.3.1 Calibre of External Audit Firm – average score of 4.4
 - 3.3.2 Quality processes – average score of 4.8
 - 3.3.3 Audit Team – average score of 4.3
 - 3.3.4 Audit scope – average score of 3.9
 - 3.3.5 Audit communication – average score of 3.9
- 3.4 The Audit Committee will provide feedback to Deloitte. However, no areas of concern have been raised and the Council of Governors is therefore asked to approve the re-appointment of Deloitte for 2015/16.

4 Recommendation

The Council of Governors is asked to receive this report and approve the re-appointment of Deloitte as External Auditors for 2015/16.

David Waller
Chair of Audit Committee

July 2015