

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST

BOARD OF DIRECTORS

THURSDAY 28 OCTOBER 2010

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| Title: | AUDIT COMMITTEE ANNUAL REPORT TO BOARD OF DIRECTORS |
| Responsible Director: | David Burbridge, Director of Corporate Affairs |
| Contact: | David Burbridge, 0121 627 2881. |

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| 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: | |
| 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 10/11.</p> |
| Recommendation: | The Board of Directors is asked to receive this report on the work of the Audit Committee during the 2009/10 financial year. |

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| Signed: | Date: October 2010 |
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AUDIT COMMITTEE
ANNUAL REPORT TO THE BOARD OF DIRECTORS
28 OCTOBER 2010

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 essential Standards as part of the process of registration with the Care Quality Commission and to the process for preparing the annual Statement on Internal Control (SIC).

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, RSM Tenon, 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 The Internal Auditors' Opinion for the year 1 April 2009 – 31 March 2010 was expressed as follows:

“Based on the work undertaken in 2009/10, 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.”

- 3.1.3 The context for the Opinion was the Internal Auditors’ assessment of the design and operation of the Trust’s Assurance Framework and associated processes, the range of individual opinions arising from risk-based audit assignments, contained within the risk-based plans that were reported throughout the year, the Trust’s Standards for Better Health processes and Declaration, and the reliance placed upon the work of other assurance providers.
- 3.1.4 At the Audit Committee meeting on 6 May 2010, the Internal Auditors confirmed that there were no significant issues which required noting in the Trust’s SIC for 2009/10.
- 3.1.5 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 2009/10 was that the Trust’s financial statements gave a true and fair view of the state of affairs at UHB as at 31 March 2010 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 RSM Tenon. The Audit Committee receives and approves the Annual Plan relating to counter fraud work. The number of days allocated in the Annual Plan for pro-active counter fraud work for 2009/10 was 52 days. A further 59 days was used on reactive work (investigations etc.)
- b) During the course of the year, the Committee received regular progress reports, together with an Annual Report. The Annual Report for 2009/10 confirmed that it had been a very satisfactory year at the Trust in this regard and that the counter fraud culture within the Trust was strong.

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.
- c) The Committee also receives, at each meeting, updates on the financial risks associated with the new hospital project. This is to gain assurance that this key risk to the Trust is being properly assessed and monitored and that, where possible, action is being taken to mitigate the risks.

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 2009/10 were as follows:

Mr Stewart Dobson (Chair)

Ms Clare Robinson

Professor Michael Sheppard

Prof David Bailey (on leave of absence until July 2009)

Mr Tony Huq (up to 30 June 2009)

Mr David Ritchie

Ms Gurjeet Bains

Ms Angela Maxwell (from 1 July 2009)

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

Mr Tony Huq – Chair of Management Committee Bangladesh Centre

Mr David Ritchie – Chairman of Governors of the Queen's Foundation for Ecumenical Theological Education

Mr Stewart Dobson- Trustee of Thinktank Trust

Prof David Bailey - Employee of Coventry University

Prof Michael Sheppard - Employee of the University of Birmingham

- 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 2009/10 and were attended as follows:

| Director | No. of meetings attended* |
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| Clare Robinson | All |
| Gurjeet Bains | 5 out of 6 |
| David Bailey | 3 out of 6 |
| David Ritchie | 5 out of 6 |
| Stewart Dobson | All |
| Tony Huq | None (out of 2) |
| Michael Sheppard | 4 out of 6 |
| Angela Maxwell | 2 out of 4 |

*While a member of the Audit Committee

**David Bailey was granted a leave of absence from September 2008 until July 2009 with the approval of the Board of Governors

- 4.2.2 The quorum for meetings of the Committee is two members. All meetings of the Committee during the period were quorate.
- 4.2.3 The Committee has reviewed its terms of reference and has also maintained its practice of 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. 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 2010/11**

The Committee has identified the following priorities for attention during the 2010/11 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 10 year plan and Downside 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 Review the fitness for purpose, 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 2009/10 financial year.

Stewart Dobson, Chair

October 2010

University Hospitals Birmingham
NHS Foundation Trust



AUDIT COMMITTEE

Minutes of the Meeting of 3 June 2010
Board Room, Trust HQ, QEMC

Present: Mr Stewart Dobson (Chair)
Mrs Gurjeet Bains
Ms Clare Robinson
Mr David Ritchie

In Attendance: Sir Albert Bore
Miss Julie Moore
Mr David Burbridge, Director of Corporate Affairs ("DCA")
Mr Mike Sexton, Director of Finance ("FD")
Mrs Fiona Alexander, Director of Communications ("DC")
Mr Trevor Rees, KPMG (External Audit)
Mrs Sophie Anderton, KPMG (External Audit)
Mr Michael Creaton, Chief Accountant ("CA")

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| A11/20 | Apologies for Absence Apologies for absence were received from the following: Mr Michael Sheppard |
| A11/21 | Minutes of the last meeting – 6 May 2010 Resolved: The minutes of the previous meeting held on 6 May 2010 were approved as a correct record. |
| A11/22 | Matters arising No matters arising. |
| A11/23 | External audit – ISA 260 Report The Committee considered the ISA 260 report, which was tabled by Trevor Rees and Sophie Anderton of KPMG. The Auditors confirmed that there was nothing in their report of major concern. A few minor issues were raised; these were mainly "housekeeping" points and not fundamental issues which affect the accounts. The Auditors confirmed their unqualified opinion regarding the use of resources. There were no material adjusted items; a small number of presentational adjustments had been made. The Auditors commented on the very tight process the Trust had followed and thanked the Finance team for the work they had undertaken to support the audit. |

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| | <p>The Director of Finance confirmed that the eight recommendations, none of which were fundamental, were all accepted. Active discussions were taking place around disclosures and valuations.</p> <p>There was discussion about the possible introduction of segmental reporting in the future. The FD's current view was that the Trust was only active in one segment, that of healthcare, but that Monitor may require divisional segmentation.</p> <p>The Committee agreed that a strong set of accounts had been presented and recorded their thanks to the Finance team for the work involved.</p> | | |
| | <table border="1" style="width: 100%;"> <tr> <td style="width: 25%;">Resolved:</td> <td>To accept the report from the External Auditors.</td> </tr> </table> | Resolved: | To accept the report from the External Auditors. |
| Resolved: | To accept the report from the External Auditors. | | |
| A11/24 | <p>Letter of Representation</p> <p>Consideration was given to the draft letter of representation, as presented by the FD, who reported that the letter was in its normal form, with nothing specific to draw the Committee's attention to. There had been discussion as to whether the impairment arising out of the new hospital should be treated as a post-balance sheet event, but it had been determined, following consultation with the Auditors, that this was not appropriate as the new hospital had not yet been brought onto the balance sheet. The Committee then confirmed that they were content with the form of the letter.</p> <p>Resolved: To recommend the Board of Directors to approve the Letter of Representation.</p> | | |
| A11/25 | <p>Risk Management Report</p> <p>The Committee considered the report presented by the Director of Corporate Affairs. It was noted that the report summarised the regular reports regarding risk management received by the Committee throughout the year. The DCA acknowledged that the colours on the graphs could be clearer for future reports.</p> <p>Resolved: To accept the report</p> | | |

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| A11/26 | Annual Accounts 2008/09 Consideration was given to the audited draft Annual Accounts for 2009/10, tabled by the FD. The FD reported that there had been no changes since the accounts were last presented to the Committee other than the presentational adjustments referred to in the auditor's ISA 260 report. <p align="right">ACTION: FD</p> | |
| A11/27 | Resolved: | To recommend the Board of Directors to approve the Annual Accounts for 2009/10 as now submitted. |
| A11/28 | Annual Report The DComms presented the latest draft of the Annual Report for 2009/10 which included the Quality Report and the Statement on Internal Control. It was agreed that the word "independent" should be deleted on page 49, to reflect the fact that Michael Sheppard, who was not considered independent because of his links with the Trust as a clinician, was a member of the Committee. The insertion of two additional paragraphs regarding compliance with Monitor's Code of Governance was agreed. <p align="right">ACTION: DComms</p> | |
| A11/29 | SIC Report The Committee considered the report regarding the draft Statement on Internal Control. | |
| | Resolved: | To approve the latest draft of the Annual Report, including the SIC, for 2009/10. |
| A11/30 | Hospitality Declarations January 2009 – March 2010 The Committee considered the report presented by the DCA. Resolved: To accept the report | |
| A11/31 | Any Other Business Trevor Rees of KPMG reported that, for the purposes of the dry-run of the audit of the Quality Report, they were required to provide their opinion to Monitor by the end of July. It was agreed that this matter should be considered by the Board of Directors at its scheduled meeting in July. <p align="right">ACTION: DCA</p> The Chairman commented on the positive feedback contained within the Committee's self-assessment. It was agreed that up to two of the Board seminar slots could be used for Audit Committee | |

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| | training/development. |
| A11/32 | Date of Next Scheduled Meeting Thursday, 16 September 2010 - THQ Board room Time: 10.30am – 1.00pm 9.30am – 10.30am NEDs Pre-Meeting |

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AUDIT COMMITTEE

Action list (as at 4th June 2009)

| Minute | Action | Date | By | Status |
|---|---|------------|----------|--------|
| Actions c/fwd from previous meetings | | | | |
| A08/024 | Update to Committee on the role of the Risk Advisers | Early 2009 | DCA/HG | |
| A08/055 | A paper outlining the hospitality process for staff and consultants to be presented to the next Committee. | Sept. 09 | DCA/MD | |
| Actions from 4 September 2008 | | | | |
| A08/068 | The Director of Corporate Affairs to confirm that providing bank details of staff to the Audit Commission did not put the Trust at risk of breaching the Data Protection Act. | Sept. 09 | DCA/LCFS | |
| Actions from 6 November 2008 | | | | |
| A08/93 | Medium Term Plan – Principal Risks update report - DCA and HoG to review the report and its format with a view to improving the presentation for the next meeting. | Sept. 09 | DCA/HoG | |
| Actions from 12 February 2009 | | | | |
| A09/004 | External Audit Progress Report – DCA to consider whether any of these reports need to be presented to the BoG. | March 09 | DCA | |
| A09/007 | To consider a Non-Executive Director within the membership of the New Hospital Commissioning and Move Group | asap | NHPD | |
| A09/011 | A paper outlining the shortfalls of the current sickness absence monitoring to be presented to the next Committee. | | HRD | |
| A09/012 | To change the parameters of the complaints performance quarterly report. | Sept. 09 | DSD | |
| A09/013 | To reconsider the rating of the Information Security Management System within the High Level Monitoring Report. | March 09 | DIT | |
| A09/015 | To review content of the Clinical Audit Report (Annual). | Dec. 09 | HoG | |
| A09/016 | To review content of the Clinical Governance Activity Report (Quarterly). | Sept. 09 | HoG | |
| A09/019 | To prepare a detailed paper regarding the necessary changes to the Hospitality Policy | Sept. 09 | DCA | |

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| Minute | Action | Date | By | Status |
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| Actions from 19 March 2009 | | | | |
| A09/029 | To redraft and circulate the statement on internal control (SIC) to all Board members. | Beginning of April 09 | DCA | |
| A09/030 | To provide the Audit Committee with details on training schedules per staff group. | | DD | |
| A09/031 | To draft a procedural document which defines when, how and by whom: <ul style="list-style-type: none"> • target dates of recommendations can be changed and • recommendations can be re-assigned. To ensure that significant and fundamental recommendations can be filtered out. To record when a target date has been assigned to a particular recommendation. | Nov. 09 | SMCA | |
| A09/034 | To redraft the two questionnaires assessing the effectiveness of a) the Committee and b) the External Auditors and to submit the same to all Committee members for completion. | May 2009 | | |
| Actions from 7 May 2009 | | | | |
| A10/06 | To check whether in light of the weaknesses identified by the privacy and dignity audit and SMART audit the draft SIC needs to be amended. | May 2009 | DCA | |
| A10/06 | To provide a brief narrative to explain the pie chart under section 2.7. | May/June 09 | Mike Gennard | |
| A10/08 | To provide further details as to when each investigation has commenced in the LCFS Annual Report and any future LCFS Progress Report. | Sept. 09 | Bradley Vaughan | |
| A10/12 | To consider adopting new targets for certain matters within the Governance Framework Monitoring Report. | Sept. 09 | DCA | |
| A10/16 | To add the Research Governance Report to the Committee's work programme. | Sept. 09 | DCA | |
| A10/17 | To provide a comparison with other Trusts in future Health & Safety Reports. | Sept. 09 | DCA | |
| Actions from 6 June 2009 | | | | |
| A10/25 | To update the Committee on a specific representation on page 2 of the draft letter of | | FD | |

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| Minute | Action | Date | By | Status |
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| | representation relating to the carrying values of the Trust's lands and buildings. | | | |
| A10/26 | To correct name misspelling on page 60 of the draft Annual Report. | | DC | |
| A10/27 | To amend the wording of the additional bullet point on page 12 of the SIC in the draft Annual Accounts for 2008/09. | | FD & DCA | |
| A10/28 | To request the Internal auditors to undertake an investigation into certain operating theatres practices under the Trust's whistleblowing procedure and report to the Committee. | | DCA | |