

UNIVERSITY HOSPITALS BIRMINGHAM NHS FOUNDATION TRUST
BOARD OF DIRECTORS
THURSDAY 27 MARCH 2014

Title:	AUDIT COMMITTEE REPORT
Responsible Director:	David Burbridge, Director of Corporate Affairs
Contact:	Berit Reglar, Senior Manager Corporate Affairs, Ext 14324

Purpose:	To provide the Board of Directors with assurance on the systems/processes considered by the Audit Committee and highlight any areas of concern.	
Confidentiality Level & Reason:	None	
Annual Plan Ref:	None	
Key Issues Summary:	<p>There are no areas of concern.</p> <p>For 2013/14 the Trust will receive two Heads of Internal Audit Opinion due to the transfer of internal audit services from Deloitte to KPMG half way through the year. The first Head of Internal Audit Opinion by Deloitte gave 'substantial' assurance. It is anticipated that the second Head of Internal Audit Opinion by KPMG, due in May, will also provide 'substantial' assurance.</p> <p>No issues were raised in the External Audit Progress Report.</p> <p>The AGS was presented as a first draft, the final to be approved by the Audit Committee and Board of Directors at their next meeting in May.</p> <p>The compliance review against the new FT Code of Governance highlighted 2 definitive and one potential departure from the code. The extent of and rationale for this departure will be explained in the Annual Report as part of the 'comply and explain' rule.</p>	
Recommendations:	To receive the report.	
Approved by:	David Burbridge	March 2014

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AUDIT COMMITTEE REPORT
PRESENTED BY THE DIRECTOR OF CORPORATE AFFAIRS

1. This report aims to provide the Board of Directors with formal assurance on the Trust systems/processes reviewed by the Audit Committee in accordance with the Committee's annual cycle and to highlight any areas of concern.
2. The Audit Committee is authorised to review the establishment and maintenance of a system of internal control and risk management and may investigate any activity of the Trust with assistance from Internal and/or External Audit to establish the systems' robustness and effectiveness.
3. Since the last report to the Board of Directors (February 2014) the Audit Committee has met only once (13 March 2014).
4. The March meeting represents a special purpose meeting where the reports pertinent to the Trust's Annual Report and Account are discussed. Consequently, the Audit Committee did not receive any quarterly compliance update reports, but the following annual reports as well as updates from Internal Audit, External Audit and LCFS:
 - 4.1. External Audit Update
 - 4.2. Internal Audit – Head of Internal Audit Opinion/Absence Management Report
 - 4.3. LCFS Annual Plan
 - 4.4. Compliance review against the new FT Code of Governance
 - 4.5. Draft AGS
 - 4.6. Compliance with the Policy of Controlled Documents
 - 4.7. Compliance with the Freedom of Information Act/Environmental Regulations Policy

External Audit

5. External Audit presented a progress report. It was noted that the evaluation of the new hospital and re-opened blocks in the old QE would lead to changes to the Trust's annual accounts. An update report would be provided by Finance to the Board of Directors March meeting. It was agreed that the Trust's base contract level would have the biggest impact on the accounts, but the Committee noted the difficulties in agreeing adequate base contracts with commissioners due to the ever changing NHS landscape. With regards to the Quality Report, the Trust had been found 100% compliant with both mandatory indicators; the latest guidance by Monitor on the additional third indicator had not been taken into account in the report due to its late release date. In any event, the Council of Governors has already chosen CT scanning as the third, optional local indicator.

Internal Audit

6. The Audit Committee received reports from Deloitte, Internal Auditors until 31 December 2013, as well as KPMG, the incumbent Internal Auditors.

Deloitte

7. Deloitte issued one outstanding internal audit report on Absence Management which received substantial assurance with no high or medium recommendations.
8. Deloitte further issued its Head of Internal Audit Opinion stating that *“significant assurance can be given that there is a sound system of internal control, designed to meet the organisation’s objectives, and that controls are generally being applied consistently. However, some weaknesses in the design and/or inconsistent application of controls put the achievement of particular objectives at risk.”* The statement is consistent with those of previous years and is derived from 4 core internal audit reports, including budgetary control, patient property, CQC compliance, procurement (estates).

KPMG

9. KPMG, who have acted as internal auditors since 1 November 2014, issued their internal audit reports on key financial controls, payroll and payroll bureau, all of which provided significant assurance to the Trust. There were a couple of medium recommendations which will be tracked in the recommendation tracker.
10. KPMG further issued their draft annual programme plan which will be approved at the Audit Committee meeting on 1 May following executive director consultation.

LCFS

11. The Audit Committee approved the LCFS annual work plan for 2014/15. The plan suggested the same number of days, but work was allocated to newly emerging risks as well as core risks

Compliance review against the new FT Code of Governance

12. The Audit Committee received a detailed report on the compliance with the new FT Code of Governance. The new code is largely built on the revised UK Governance Code (2012), Health and Social Care Act 2012, Enterprise and Regulatory Reform Act 2013; and Monitor’s changes from ‘Terms of Authorisation’ to ‘Provider Licence’. The most notable changes to the Code include the following:
 - 12.1. The ‘statutory requirements’ are separated from the code provisions and the Trust needs to adhere to these under all circumstances, but does not need to report on them in the code disclosure as part of the Annual Report;
 - 12.2. There is a list of provisions which require ‘supporting information’ to be published (to the public, governors, or members) even where the Trust complies with the code;
 - 12.3. All other code provisions underlie the ‘comply and explain’ rule.

13. The report included a detailed review of the old and the new FT Governance Code as well as a detailed compliance analysis. In relation to the requirements 12.1 to 12.3 above, it was concluded as follows:
- 13.1. 'statutory requirements': The Trust is fully compliant with all statutory requirements (5.1 above).
 - 13.2. 'supporting information': The Corporate Affairs team will ensure that all supporting information will be disclosed appropriately to the public, governors and members (5.2 above) prior to year end.
 - 13.3. 'comply and explain' rule: The Trust considers itself as non compliant in the following areas for the reasons set out below:
 - 13.3.1. Composition of the board: The new FT Code recommends that at least half the board of directors, excluding the chairman, should comprise non-executive directors determined by the board to be independent. The board is currently composed of 7 Execs and 7 NEDs, 6 of whom are considered to be independent. Due to his connection with Birmingham University and his services of more than 6 years, MSh is not considered to be independent. (The Trust had been non compliant with this requirement in 2012/13.)
 - 13.3.2. The council of governors should consult external professional advisers to market-test the remuneration levels of chairman and other non-executives at least once every three years. The last substantial remuneration review was undertaken in March 2009. Since then, remuneration levels have been benchmarked against those of other trusts; any increases are in line with NHS pay generally. Hence, the engagement of an external professional advisor would bring no benefit to the Trust.
 - 13.3.3. The third (potential) departure from the Code concerns the evaluation of the board by an external provider at least every three years. The Trust has always relied on internally facilitated evaluations by the chair. The trust is of the view that to choose from just a small number of providers who would be given a 'cart blanche' to undertake the review in a certain time period (e.g. 30 days) would not only interfere with the FTs' freedom, but also jeopardise any tender process and the objective to receive good value for money. The DCA has given feedback to this effect as part of Monitor's consultation process.
 - 13.4. An explanation for the departure from the FT Code, as required under the 'comply and explain' rule, will be provided in the Annual Report.

Draft AGS

The Audit Committee accepted the first draft of the AGS, noting that several sections required further amendments following closure of all internal audits, receipt of the second Head of Internal Audit Opinion from KPMG and completion of the audit of the Financial Accounts and Quality Report.

Annual Compliance reports (Controlled Document/FOI and Environmental Regulations)

No issues were raised in relation to the two annual compliance reports on Controlled Documents and compliance with the FOI Act/Environmental Regulations.

14. **Recommendations**

The Board of Directors is asked to note the content of this report.

David Burbridge
Director of Corporate Affairs