

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

REPORT BY TRUST BOARD COMMITTEE TO TRUST BOARD

DATE OF TRUST BOARD MEETING: 28 JUNE 2012

COMMITTEE: Audit Committee

CHAIRMAN: Ms K Jenkins, Non-Executive Director

DATE OF COMMITTEE MEETING: 29 May 2012

RECOMMENDATIONS MADE BY THE COMMITTEE FOR CONSIDERATION BY THE TRUST BOARD:

- draft statutory exchequer accounts 2011-12 (Minute 32/12/1 refers), and
- draft annual governance statement 2011-12 (Minute 32/12/3 refers).

Please note that the Audit Committee Annual Report 2011-12 is appended to the minutes.

OTHER KEY ISSUES IDENTIFIED BY THE COMMITTEE FOR CONSIDERATION/ RESOLUTION BY THE TRUST BOARD:

- None

DATE OF NEXT COMMITTEE MEETING: 4 September 2012

**Mrs K Jenkins
22 June 2012**

Trust Board Paper N

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST
MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON
TUESDAY 29 MAY 2012 AT 10:30AM IN CONFERENCE ROOMS 1A & 1B,
GWENDOLEN HOUSE, LEICESTER GENERAL HOSPITAL SITE

Present:

Ms K Jenkins – Non-Executive Director (Chairman)
Mr R Kilner – Non-Executive Director
Mr I Reid – Non-Executive Director
Mr D Tracy – Non-Executive Director

In Attendance:

Mr M Lowe-Lauri – Chief Executive
Mrs H Majeed – Trust Administrator
Mr P Rogers – Senior Payroll Project Manager (for Minute 39/12/1)
Mr A Seddon – Director of Finance and Procurement
Mr J Shuter – Deputy Director of Finance and Procurement
Mr N Sone – Financial Accountant
Mr R Smith – Information Governance Manager (for Minute 39/12/1)
Mr S Ward – Director of Corporate and Legal Affairs

Mr A Bostock – KPMG (the Trust's External Auditor)
Mr D Hayden – KPMG (the Trust's External Auditor)
Mr D Sharif – KPMG (the Trust's External Auditor)

Ms J Clarke – Local Counter Fraud Specialist (East Midlands Internal Audit Services) (from Minute 37/12/1 – Minute 37/12/4 inclusive)

Ms J Watson – Senior Internal Audit Manager (the Trust's Internal Auditor)

RECOMMENDED ITEMS

ACTION

32/12 DRAFT STATUTORY ACCOUNTS 2011-12 AND ANNUAL REPORT 2011-12

32/12/1 Draft Statutory Exchequer Accounts 2011-12

The Director of Finance and Procurement presented paper B, including the annual accounts for the year ending 31 March 2012 (appendix 1 to the report refers) and the proposed Representation Letter from the Trust to the External Auditors (paper tabled). The Trust had reported an operational surplus of £88,000 and a technical deficit of £2.542m (due to impairment) in 2011-12.

The Trust had not met the administrative target relating to the Better Payment Practice Code except for the value of non-NHS invoices paid. The Director of Finance and Procurement advised that the Trust had to actively manage its cash levels, including the value of payment runs to suppliers and the target had not been met due to the actions agreed within the Trust's liquidity plan. In response to a query, it was noted that there would be no adverse impact on the Trust for not meeting this as it was not a statutory target.

The final report on the findings of Gerald Eve as the Trust's specialist in preparing the valuation of the Trust's land and building assets had now been made available and the Director of Finance and Procurement agreed to circulate this report or make it available on the Trust's SharePoint system.

In respect of deferred income, the Financial Accountant advised that following stringent DoH guidance on deferred income, the Trust had discussions with the

DFP

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SHA and PCT and agreed that £4.2m was considered as non-deferrable and was therefore released into I&E (sections 28 and 32 of paper B refers).

In discussion on this item, members:

- | | | |
|------|--|------|
| (i) | requested further details on a specific redundancy case, and | FA |
| (ii) | queried what was encompassed within the £2m expenditure on clinical negligence insurance – it was agreed that a breakdown would be provided outside the meeting. | DDFP |

Recommended – that (A) the draft statutory annual accounts 2011-12 (including the proposed Representation Letter which was tabled) be endorsed and recommended onto the Trust Board for formal approval; DFP/TA

(B) the Director of Finance and Procurement to circulate/make available on SharePoint, the findings of Gerald Eve, the Trust’s Specialist on the valuation of the Trust’s land and building assets, and DFP

(C) the Financial Accountant and the Deputy Director of Finance and Procurement be requested to undertake the action detailed under points (i) and (ii) above, respectively. FA/DDFP

32/12/2 External Audit Draft Audit Memorandum and Verbal Opinion on the 2011-12 Statutory Accounts

Mr A Bostock, KPMG (the Trust’s External Auditor) presented paper C, which detailed the draft Audit Memorandum and provided a verbal opinion on the 2011-12 statutory accounts, including the Trust’s management response to the Audit Memorandum. As a result of KPMG’s 2011-12 audit work, seven recommendations had been made to the Trust and the key recommendations were:-

- the Trust should continue to develop its workforce planning to ensure delivery of efficiencies in support of the 2012-13 financial plan, and
- the Trust should review its deferred income sources and implement additional controls to ensure all balances were supported by evidence.

Mr A Bostock notified his intention to issue an unqualified audit opinion on the Trust’s 2011-12 accounts following the Audit Committee adopting the accounts and receipt of the management representation letter.

Mr A Bostock advised that External Audit were required to report any inconsistencies greater than £250,000 between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions. A number of such variances had been identified for the latter – in response, the Financial Accountant advised that this was due to a timing issue noting that there were now specifically differences in only two transactions with the counter party and confirmed that neither of these needed to be adjusted/dealt with by UHL.

It was suggested that the last line of page 6 be amended to read ‘CQC’s visit to ED/AMU’. EA

Members discussed at length the management response in respect of the recommendation relating to ‘strengthening financial resilience’ as summarised on page 12 of paper C and noted the need for amending the response to include timescales and further details on the Transformation Support Office, Integrated Business Plan and Long Term Financial Model. EA

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The Committee Chairman commented that appendix D was useful which provided the waterfall chart to show the impact of the non-recurrent income and balance sheet contributions to the Trust's year-end surplus. Responding to a query, it was noted that the transformational funding of £8m was the net figure, which took into account the transformational expenditure.

Recommended – that (A) the contents of this report, and additional verbal information provided, be received and noted, and

(B) External Audit be requested to:-

- **amend their report to read 'CQC's visit to ED/AMU', and**
- **seek an amended management response to risk 1 'Strengthen financial resilience'.**

EA

32/12/3 Draft Annual Governance Statement 2011-12

The Chief Executive introduced paper D, which detailed the draft Annual Governance Statement 2011-12, and had been updated from that presented previously (Minute 26/12 of 18 April 2012 refers) – amendments had been listed in section 2 of paper D.

Mr R Kilner, Non-Executive Director noted that Internal Audit would undertake a review of the sustainability and deliverability of the revised ED plan in quarter 3 of 2012-13 and commented that the timing of this review would need to be adjusted, as appropriate.

The Committee Chairman suggested that the risks listed on page 9-10 of the report be classified as 'other significant' risks. The Senior Internal Audit Manager suggested some wording for inclusion within paragraph 2 of page 8 of paper D, which the Director of Corporate and Legal Affairs agreed to include.

Subject to inclusion of the above amendment to the draft Annual Governance Statement 2011-12, the Committee endorsed it for onward recommendation onto the Trust Board for formal approval.

DCLA

Recommended – that subject to the amendments to be made by the Director of Corporate and Legal Affairs (as described above), the draft Annual Governance Statement 2011-12 be endorsed and recommended onto the Trust Board for formal approval.

DCLA/
TA

32/12/4 Draft Audit Committee Annual Report 2011-12

The Director of Corporate and Legal Affairs presented paper E, which detailed the draft Audit Committee Annual Report for 2011-12, noting that, further to members' comments, it would be appended to the Committee's minutes when submitted to the Trust Board. The Committee Chair suggested that she provided an updated paragraph on her role for inclusion within the report.

DCLA

Recommended – that subject to inclusion of an updated paragraph on the role of the Committee Chairman, the Director of Corporate and Legal Affairs be requested to append the Audit Committee Annual Report 2011-12 to the minutes of the Audit Committee when it is submitted to the Trust Board on 28 June 2012.

DCLA/
TA

RESOLVED ITEMS

ACTION

33/12 PRIVATE DISCUSSIONS WITH BOTH SETS OF AUDITORS

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As at the previous meeting, and in line with the guidance detailed within paper A, private discussions took place between the Chairman and members of the Audit Committee and External and Internal Audit ahead of the start of the formal meeting.

Resolved – that the position be noted.

34/12 APOLOGIES

There were no apologies for absence.

35/12 MINUTES

In respect of Minute 23/12/2.3, the Director of Finance and Procurement advised that there were two different strategic planning processes for 2012-13 in relation to the target date for 2013-14 CIPs and requested that the minutes be amended accordingly.

Resolved – that subject to the above amendment, the Minutes of the meeting held on 18 April 2012 (papers F-F1 refers) be confirmed as a correct record.

TA

36/12 MATTERS ARISING FROM THE MINUTES

The Chairman confirmed that the Matters Arising report (paper G) highlighted the matters arising from the most recent meeting held on 18 April 2012. Members noted in particular:-

- (a) (re: Minute 23/12/2.2) that the Medical Director be requested to provide an update to the Audit Committee in September 2012, following discussion with AUKUH Medical Director colleagues in June 2012 regarding the number of clinical audits undertaken within other Trusts (noting the very high number of audits undertaken within UHL, and the possibility of having a reduced number of audits overall with those audits undertaken particularly playing into strategic issues for the Trust);
- (b) (re: Minute 23/12/2.3) - in relation to the target date for the 2013-14 CIPs currently scheduled as 1 December 2012, the Director of Finance and Procurement agreed to review the timetable for planning and to submit a report to the Audit Committee in September 2012 regarding the strategic planning process;
- (c) (re: Minute 23/12/3) – in relation to the internal audit review of the sustainability and deliverability of the plans for improving performance in the Emergency Department, the Chief Executive advised that an external review in July 2012 had been commissioned to examine the Emergency Department and they would advise on implementing a standard clinical process. It was therefore suggested that it would be more appropriate for the internal audit review to be undertaken later in the calendar year 2012. It was noted that there were some leadership issues within the Emergency Department which would need to be resolved prior to the external review, and
- (d) (re: Minute 25/12) – the results of the Audit Committee effectiveness – self-assessment process be submitted to the Audit Committee in September 2012.

MD

DFP

DCLA

Resolved – that the matters arising report (paper G) be received and noted and the actions described above be taken forward accordingly.

MD/DFP/
DCLA/
TA

37/12 ITEMS FROM THE LOCAL COUNTER FRAUD SPECIALIST

37/12/1 Counter Fraud Annual Report 2011-12

Ms J Clarke, Local Counter Fraud Specialist presented paper H, which detailed a

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summary of the Annual Report of Counter Fraud work for 2011-12 which had been written in accordance with the provisions of the Secretary of State Directions on fraud and corruption. Members were advised that extra resourcing days were required for 2011-12 due to the high number of complex cases that had been investigated in that period.

A proactive review of the salary overpayments had been conducted. In respect of a specific case relating to re-sale of redundant IM&T equipment, the Committee requested a briefing note to be provided to the Chief Executive and the Director of Human Resources in respect of this case.

LCFS

Resolved – that (A) the contents of this report be received and noted, and

(B) the Local Counter Fraud Specialist be requested to provide a briefing note to the Chief Executive and the Director of Human Resources in respect of the specific case mentioned above.

LCFS

37/12/2 Fraud Risk Assessment and Counter Fraud Workplan 2012-13

The Local Counter Fraud Specialist presented paper I, the local counter fraud annual operational plan for 2012-13. The following planned resource days had been allocated:-

- (a) creating an anti-fraud culture - 41 days;
- (b) deterring fraud - 5 days;
- (c) preventing fraud - 35 days;
- (d) detecting fraud - 35 days;
- (e) investigation - 50 days;
- (f) sanction – 2 days;
- (g) redress – 2 days, and
- (f) strategic work - 20 days.

The Committee Chairman queried whether a total of 190 planned resource days would suffice noting the additional resource days that were required in 2011-12 – in response, it was noted that the Local Counter Fraud Specialist anticipated that this would be sufficient, however she advised that additional days might be required in the event of additional Trust requirements.

The Chief Executive suggested that consideration be given to undertaking fraud risk assessments in respect of bank/agency staff recruitment.

LCFS

Resolved – that (A) the contents of this report be received and noted, and

(B) the Local Counter Fraud Specialist be requested to give consideration to undertaking fraud risk assessments in respect of bank/agency staff recruitment.

LCFS

37/12/3 Audit Commission Summary National Fraud Initiative (NFI) Report

Members were advised that as part of the allocation of resources for detection, the Local Counter Fraud Specialist had completed all payroll matches for the Trust and continued to liaise with the NFI key contact to ensure that matches were completed and reported to the Audit Commission in a timely manner. Paper J provided an executive summary extracted from the NFI National Report May 2012.

Resolved – that the position be noted.

37/12/4 Report from the Local Counter Fraud Specialist

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Resolved – that this Minute be classed as confidential and taken in private accordingly.

38/12 FINANCE – STRATEGIC AND OPERATIONAL ISSUES

38/12/1 Discretionary Procurement Actions

Resolved – the contents of paper K be received and noted.

38/12/2 Overseas Visitors and Private Patient Debt Review

The Deputy Director of Finance and Procurement presented paper L, a report on the debt position for overseas visitors and private patient debts and the actions being taken as part of the review of the process behind the debt. A report on an overview of the updated arrangements for private patients and overseas visitors to maximise recovery of income for this activity had been presented to the Quality and Performance Management Group meeting in May 2012 and it had been agreed that metrics would be used to monitor performance.

The Deputy Director of Finance and Procurement advised that there was a need to agree a process to ensure that Divisional staff were appropriately identifying private patients and overseas visitors and ensuring that paperwork was being completed and money collected appropriately. Responding to a query, he noted the need to agree an approach with Internal Audit, to document a process for monitoring procedures relating to overseas visitors and private patients on a monthly basis.

DDFP

Members commented that Divisions needed to be self regulated and any debts would need to be tracked back to Divisions.

Resolved – the (A) contents of paper L be received and noted, and

(B) the Deputy Director of Finance and Procurement be requested to agree an approach with Internal Audit, to document a process for monitoring procedures relating to overseas visitors and private patients on a monthly basis.

DDFP/
TA

39/12 ITEMS FROM INTERNAL AUDIT

39/12/1 Internal Audit Progress Report

The Senior Internal Audit Manager presented paper M, which comprised an Internal Audit Progress Report for 2011-12. Appendix A detailed a summary of two outstanding recommendations following reviews.

The Information Governance Manager attended the meeting to provide an update on an outstanding action following the Information Governance review. In respect of the action relating to smartcard training and card issue, there had been some capacity issues and therefore it had not been possible to implement this action. The Committee Chairman suggested that the Information Governance Manager discussed with Internal Audit, outside the meeting in respect of a revised implementation date and key milestones.

IGM

The Senior Payroll Project Manager attended the meeting to provide an update on the outstanding action following the overpayments review. He advised that McKesson (the Trust's payroll provider) now ran exception reports on a monthly basis detailing the movement in individual salary payments between months. As part of McKesson's own internal audit they were also looking to change to a

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different tool which would be more efficient. This action was now considered closed.

Resolved – that (A) the contents of paper M, Internal Audit progress report for 2011-12 be received and noted, and

(B) the Information Governance Manager to discuss with Internal Audit in respect of setting a revised implementation date and key milestones for the outstanding recommendation following the Information Governance review.

IGM

39/12/2 Internal Audit Reviews

a. SLR, SLM and PLICs

The Senior Internal Audit Manager provided an overall observation from Internal Audit's high level review of SLR and PLICS (paper N refers) and noted the need for full engagement across the Trust, from clinicians and management, for using this information to drive change in efficiency and quality. Responding to a query, it was noted that some clinicians had engaged with the reporting tool and challenged the data within it, however, there were many clinicians who did not use the tool or used it passively. External Audit colleagues also expressed a similar view noting that this tool was more popular in Cardiac specialties whereas specialties like General Medicine, Elderly Care/Geriatrics did not use it as often.

The Senior Internal Audit Manager suggested that the implementation of Service Line Management was the way forward, where service lines took accountability for their own management through a balance scorecard approach under the guidance of the Trust itself.

Resolved – that the contents of paper N be received and noted.

b. Quality Governance

Paper O detailed the review of some of the key processes in place for ensuring effective quality governance at the Trust. Responding to a query, the Director of Corporate and Legal Affairs advised that a meeting had been scheduled to discuss the re-calibration of safety and quality issues at the various sub-committees of the Trust Board and/or QPMG. He agreed to provide an update on the management response to the recommendations made by Internal Audit following the quality governance review at the Audit Committee meeting in September 2012.

DCLA

Resolved – that (A) the contents of paper O be received and noted, and

(B) the Director of Corporate and Legal Affairs to provide an update on the management response to the recommendations made by Internal Audit following the quality governance review at the Audit Committee meeting in September 2012.

DCLA/
TA

c. Application Access

The Senior Internal Audit Manager presented paper P, a report on the review of application access within the Trust and confirmed that this report had now been issued as 'final'. Members expressed concern over the number of unauthorised users. The Committee Chairman noted that there were three findings, which were rated 'medium' risk and noted the need for these findings to be reported to the Head of IM&T, for action as appropriate.

IA

Resolved – that (A) the contents of paper P be received and noted, and

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(B) the findings from the above review be reported to the Head of IM&T for action, as appropriate.

IA

39/12/3 Internal Audit Plan 2012-13

The Senior Internal Audit Manager presented paper Q which outlined the internal audit risk assessment and the proposed areas of internal audit focus for 2012-13. The plan had been formulated based on PwC's recent discussion with Directors within the Trust on areas of risk identified in the Board Assurance Framework.

In response to a suggestion from Mr R Kilner, Non-Executive Director, the Senior Internal Audit Manager agreed to re-consider the intensity/frequency of reviewing absence/sickness management systems as a new sickness absence process was being rolled out from 1 June 2012. In further discussion, it was suggested that the Internal Audit plan needed to link-in with the Trust's FT timeline and the refreshed Board Assurance Framework. It was also noted that there had been a delay in organising a risk workshop but it was expected that a date would be confirmed in due course.

The PwC representative agreed to incorporate the suggestions and circulate a revised Internal Audit plan 2012-13 to Audit Committee members by end of June 2012.

IA

Resolved – that (A) the contents of paper Q be received and noted, and

(B) the Senior Internal Audit Manager to circulate an updated 2012-13 plan taking into consideration the FT timeline and the refreshed Board Assurance Framework.

IA

40/12 **QUALITY ACCOUNT 2011-12**

On behalf of the Director of Clinical Quality, the Director of Corporate and Legal Affairs presented paper R, the final draft of the Quality Account (QA) 2011-12 which included the Statement of Directors' Responsibilities and stakeholder's commentary. External Auditors would provide an opinion on the QA for the Trust Board meeting on 28 June 2012.

DCQ

In discussion on the QA, the Committee Chairman requested that there be a clear exposition at the Trust Board meeting on 28 June 2012 on the nature of the management assurances about data quality, which would underpin the signing of the Statement of Directors' responsibilities.

External Auditors commented that their assurance on the QA would necessarily be 'limited' as they were auditing but a few indicators, however, they advised that other Trusts had set up a rolling programme of internal audits in order to provide greater depth and breadth of assurance to the Board over the information contained within the QA.

Resolved – that the (A) contents of paper R be received and noted, and

(B) the Director of Clinical Quality to ensure that management assurance of data quality within the quality account was undertaken through the Trust's Information teams prior to the final version of the Quality Account being submitted to the Trust Board on 28 June 2012.

DCQ

41/12 **ITEM FOR INFORMATION**

Trust Board Paper N

41/12/1 Local Security Management Annual Report 2011-12

Resolved – that the contents of paper S be received and noted.

41/2/2 Risk Management Accountability within UHL

Members noted the contents of paper T which provided an overview of risk management accountabilities within UHL. It was noted that for effective risk management to continue and be sustainable over the long-term required more capacity to be available and additional support was being investigated.

Risk management processes had been implemented within Divisions and Directorates with varying levels of success as evidenced in the recent internal audit review of risk management at UHL. Members noted the need for the processes to be embedded and appropriately monitored in order to provide sufficient quality and quantity of evidence to demonstrate NHSLA compliance.

Resolved – that the contents of paper T be received and noted.

42/12 MINUTES FOR INFORMATION AND DISCUSSION

42/12/1 Governance and Risk Management Committee

Resolved – that the Minutes of the Governance and Risk Management Committee meetings held on 29 March 2012 (paper U refers) and 23 April 2012 (paper U1 refers) be received and noted.

42/12/2 Finance and Performance Committee

Resolved – that the Minutes of the Finance and Performance Committee meeting held on 28 March 2012 (paper V refers) and 25 April 2012 (paper V1 refers) be received and noted.

43/12 ANY OTHER BUSINESS

Resolved – that there were no items of any other business.

44/12 IDENTIFICATION OF KEY ISSUES THAT THE COMMITTEE WISHES TO DRAW TO THE ATTENTION OF THE TRUST BOARD

Resolved – that there were no items to be brought to the attention of the Trust Board.

45/12 DATE OF NEXT MEETING

Resolved – that (A) the next meeting of the Audit Committee be held on Tuesday, 4 September 2012 from 10:30am in the Board Room, Victoria Building, Leicester Royal Infirmary, and

(B) it be noted that this meeting would be preceded by a private meeting between the Audit Committee Chairman and the Non-Executive Director members at 10:00am, with representatives from Internal and External Audit to attend from 10:15am in the Committee Room, Victoria Building, Leicester Royal Infirmary.

The meeting closed at 12:58pm.

Hina Majeed, **Trust Administrator**

University Hospitals of Leicester NHS Trust

Audit Committee

Annual Report 2011 / 12

FOREWORD

The purpose of this University Hospitals of Leicester (UHL) NHS Trust Audit Committee Annual Report is to provide a brief commentary on the work of the Committee in the 2011/12 financial year.

This is the eighth such report prepared by UHL's Audit Committee. I hope you find it of interest.

We would welcome feedback on this Annual Report. Please forward comments to me c/o Stephen Ward, Director of Corporate and Legal Affairs at stephen.ward@uhl-tr.nhs.uk or at: -

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LE5 4QF

Kiran Jenkins
Chairman, UHL Audit Committee
May 2012

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The Role of an Audit Committee

Every NHS organisation is required to establish a non-executive committee of the Board to be known as the Audit Committee. The main objective of the Committee is to independently contribute to the Board's overall process for ensuring that an effective internal control system is maintained. In addition, the Audit Committee provides a form of independent check upon the executive arm of the Board.

Traditionally, the primary focus for this work has related to internal financial control matters such as the scrutiny and review of financial systems, the maintenance of proper accounting records and the reliability of financial information. The importance of that financial scrutiny has certainly not diminished, but there is now an expectation of a wider focus by the Audit Committee, particularly in the NHS where there is a need to meet a broad range of stakeholder needs.

As a consequence, the Committee's primary role today is to conclude upon the adequacy and effective operation of the organisation's overall internal control system. As a result, the Committee has a pivotal role to play in reviewing the disclosure statements that flow from the organisation's assurance processes. In particular, this responsibility covers the Annual Governance Statement. UHL's Audit Committee has received reports on this matter in 2011/12.

Membership and meetings

The exercise of effective oversight requires objectivity and relevant experience. These are among the attributes that Non-Executive Directors bring to the Board. The Audit Committee provides Non-Executive Directors with access to financial information, information upon internal control systems, and to External and Internal Auditors. Non-Executive Directors are thereby able to bring their skills and experience to bear on the internal financial and other control processes and to do so independently of senior management.

The membership of the UHL Audit Committee consists of four Non-Executive Directors, with a quorum of two. The Trust Chairman cannot serve on the Audit Committee. The Chief Executive, Director of Finance and Procurement, Director of Corporate and Legal Affairs, Head of Internal Audit and the External Auditors all have a standing invitation to attend Audit Committee meetings which are held at least three times a year.

Kiran Jenkins assumed the role of substantive Committee Chairman from November 2011 and remains in the role.

Ian Reid, Vice-Chairman of the Trust served as a Committee member throughout 2011/12, as did both Richard Kilner and David Tracy.

The membership of the Trust's Audit Committee is well suited to the importance and complexity of its work. As a minimum, one member of the Committee must have recent financial experience. Kiran Jenkins is experienced in finance, risk management and audit and qualified as a Chartered Accountant with Ernst & Young. Kiran currently works at Citigroup.

Ian Reid is able to draw upon his 40 years experience in the construction materials industry, culminating in his appointment as Managing Director of Lafarge (Redland) Aggregates in 1990 (a position he held until his retirement in 2003).

David Tracy offers thirty years experience in the banking industry, with extensive responsibilities including strategic planning, project leadership and new business development.

Richard Kilner is a chartered civil engineer and a member of the Institution of Civil Engineers. Educated in South Africa, Richard has held a number of senior posts in the construction industry. His most recent role was in private equity at 3i plc where he was involved in significant investment and development programmes in Asia, the USA and Europe.

The Audit Committee met on five occasions during 2011/12. Each meeting was quorate.

The Director of Finance and Procurement has operational responsibility for establishing and maintaining a sound system of internal financial control, is responsible for the production of the annual accounts and is the key contact

for the Head of Internal Audit and the External Auditors. Consequently, the Director of Finance and Procurement is the key executive contact with the Committee and its Chairman and the Committee had access to the Director of Finance and Procurement, and members of his senior management team, at all of the meetings in 2011/12.

Similarly, the Committee had access to both Internal and External Auditors at each meeting in 2011/12.

Both Internal and External Auditors had access to the Audit Committee in the absence of Executive Directors.

Agenda papers are prepared and circulated in advance of meetings. The minutes of each Audit Committee meeting are submitted to the next available meeting of the Trust Board and are presented at Board meetings by the Committee Chairman.

Review of 2011/12

During 2011/12 the Audit Committee reviewed a range of activities relating to internal financial and other key control issues, including the following: -

- safeguarding of assets;
- maintenance of proper accounting records;
- the reliability of financial information;
- independence and effectiveness of internal and external audit;
- effectiveness of internal financial control systems;
- the overall control environment (including measures to prevent and detect fraud).

All of these financial duties were substantially delivered through the approval of Internal and External Audit plans and review of progress reports. Discussions with both sets of auditors and the Director of Finance and Procurement provided the basis for obtaining explanation and clarification.

The Annual Internal Audit Report, Head of Internal Audit Opinion Statement and the External Auditor's Audit Memorandum, Opinion and Annual Audit Letter, delivered within the context of risk – based plans, formed the key documents from which the Audit Committee derived assurance.

Other matters considered by the Committee during the year included:-

- review and updating of the Trust's corporate governance policies;
- review of the Trust's assurance framework, a structure within which the Trust Board has identified the principal risks to the organisation meeting its principal objectives and mapped out both the key controls in place to manage them and also how assurance is gained about their effectiveness;
- reviewing the findings of the External Auditors following their 'dry run' review of the Trust's Quality Accounts 2010/11 and the response of Trust management to the Auditors' recommendations;
- a review of the work undertaken by the Trust's Local Counter-Fraud Specialist;
- a review of the work undertaken by the Trust's Local Security Management Specialist;
- review of the Trust's information governance arrangements;
- contract negotiations with the Trust's principal Commissioners;

- cost improvement programme forecasting processes;
- arrangements in place to achieve accreditation in relation to the NHS Litigation Authority's Acute Risk Management Standards;
- significant risk and control findings identified by the Trust's Finance and Performance Committee and Governance and Risk Management Committee, respectively; and
- the governance arrangements in place at Clinical Divisional and Clinical Business Unit levels.

During 2011/12, the Committee also continued to receive at each meeting reports assessing the Trust's position in relation to the following matters:

- discretionary procurement actions;
- significant breaches of Standing Financial Instructions (none in-year).

The Committee receives, at each meeting, the minutes of meetings of the Trust's Finance and Performance Committee and Governance and Risk Management Committee, which report directly to the Trust Board. This arrangement helps to ensure that there is clarity upon the respective roles and responsibilities of these bodies within the overall internal control system of the Trust.

The Head of Internal Audit's 2011/12 year-end report and Opinion Statement submitted to the Audit Committee stated that significant assurance could be provided 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.

In the ISA 260 Audit Highlights Memorandum (May 2012) the Trust's External Auditors have reported that, on receiving the Trust's management representations letter, an unqualified audit opinion on the Trust's 2011/12 financial statements and remuneration report would be issued. The Trust Board will be recommended to confirm the Trust's management representations and adopt the annual accounts 2011/12 at its meeting on 7 June 2012. Once the External Auditors have received the Trust's representations, they will issue their audit opinions which will confirm that :

- the Trust's financial statements present a true and fair view of the Trust's operations;
- the Trust has complied with Department of Health requirements in the preparation of its Annual Governance Statement 2011/12 and that they are not aware of any inconsistencies between the information recorded in the Statement and their other work; and

- the numerical part of the Trust's remuneration report has been presented in a way which complies with the accounting requirements directed by the Secretary of State.

Taking into account the opinions of the Head of Internal Audit and External Auditors, the Committee is able to confirm that the Trust Annual Governance Statement 2011/12 is consistent with its view of the organisation's system of internal control and support the Trust Board's approval of the Statement. In doing so, the Committee has affirmed that the Trust's assurance framework 2011/12 was designed and operated to meet the Department of Health's requirements and provided reasonable assurance that there is an effective system of internal control to manage the principal risks identified by the Trust.

The Committee consequently endorsed the Annual Governance Statement's description of the Trust's system of risk management and its adequacy in identifying risks and allowing the Trust Board to understand the appropriate management of those risks. In doing so, the Committee endorsed the commitment in the Statement that the further work to be undertaken in 2012/13 to review and improve the Trust's governance, risk management and internal control systems, policies and procedures would strengthen the Trust's system of internal control.

The Future: 2012/13 and beyond

In 2012/13, the Audit Committee will continue to focus upon the adequacy and effectiveness of the organisation's overall internal control system and, in this regard, will pay particular attention to the framework of risks, controls and related assurances that underpin the delivery of the Trust's objectives.

In addition, the Committee has agreed the following subjects amongst its priorities for 2012/13:

- ensuring that action is taken to clarify and strengthen processes to ensure management act speedily to implement audit recommendations;
- improving the approach to Audit Committee training.

The Audit Committee timetable includes a slot for an annual developmental meeting of the Committee. It is at this meeting that the Audit Committee will consider and assess its own effectiveness annually, drawing on best practice guidance published by the Department of Health and Audit Committee Institute.

In 2012/13, UHL intends that its application to become an NHS Foundation Trust will be approved by the Secretary of State for Health and placed before Monitor, the Independent Regulator for NHS Foundation Trusts, for consideration and approval.

The Audit Committee has identified the possibility that, in an NHS Foundation Trust environment, it will be asked by the Board of Directors to assume responsibilities beyond its traditional duties. It is therefore considering its own development needs, establishing useful links with a number of parties external to the Trust who can offer advice on this subject; and will continue to review its remit, roles and relationships as the Trust's Foundation Trust application is progressed.

Kiran Jenkins
Chairman, UHL Audit Committee
May 2012