

University Hospitals of Leicester

NHS Trust

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

REPORT BY TRUST BOARD COMMITTEE TO TRUST BOARD

DATE OF TRUST BOARD MEETING: 4 August 2016

COMMITTEE: Audit Committee

CHAIRMAN: Richard Moore, Non-Executive Director

DATE OF COMMITTEE MEETING: 7 July 2016

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

- **Minute 48/16 – External Audit Annual Audit Letter 2015-16 (appended)**

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

- **Minute 54/16/2 – Internal Audit Charter 2016-17, and**
- **Minute 58/16/2 – Board Assurance Framework – Review of Principal Risk 3 (Emergency Attendance/Admissions Increase).**

DATE OF NEXT COMMITTEE MEETING: 1 September 2016

**Richard Moore
Non-Executive Director
29 July 2016**

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON
THURSDAY 7 JULY 2016 AT 1:15PM IN SEMINAR ROOMS 2 AND 3, CLINICAL EDUCATION
CENTRE, GLENFIELD HOSPITAL**

Present:

Mr R Moore – Non-Executive Director (Chair)
Colonel (Retired) I Crowe – Non-Executive Director (part)
Mr A Johnson – Non-Executive Director
Mr M Traynor – Non-Executive Director

In Attendance:

Mr C Benham – Director of Operational Finance
Mrs H Majeed – Trust Administrator
Mr R Manton – Risk and Safety Manager (for Minute 57/16/1 to 58/16/1 only)
Mr R Mitchell – Chief Operating Officer (from Minute 49/16 to 52/16/1 and Minute 58/16/2 only)
Mr W Monaghan – Head of Performance and Information (from Minute 49/16 to 52/16/1 only)
Mr N Sone – Financial Controller
Mr P Traynor – Chief Financial Officer
Mr S Ward – Director of Corporate and Legal Affairs

Mr M Curtis – EM Internal Audit Services – former Local Counter Fraud Specialist (for Minute 53/16/1 only)

Ms G Lekh – Local Counter Fraud Specialist, PwC (for Minute 53/16/2 only)
Mr N Mohan – Local Counter Fraud Specialist, PwC (for Minute 53/16/2 only)

Mr J Brown – Director, KPMG (the Trust's External Auditor)
Mr D Hayward – Manager, KPMG (the Trust's External Auditor)

Ms C Wood – Senior Manager, PwC (the Trust's Internal Auditor)

ACTION

RECOMMENDED ITEMS

48/16 EXTERNAL AUDIT ANNUAL AUDIT LETTER 2015-16

Paper H provided the 2015-16 Annual Audit Letter from External Audit, which summarised the key issues arising from External Audit's 2015-16 audit of the Trust. As noted in the Annual Audit Letter, External Audit had issued an unqualified opinion on UHL's 2015-16 financial statements (including an emphasis of matter paragraph re: the Trust's financial performance); an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Whole of Government accounts with no exceptions. The Annual Audit Letter also outlined External Audit's fees for its 2015-16 work. In response to a query from the Committee Chair regarding the process of the year end fixed asset re-valuation, the Chief Financial Officer advised that the Finance Team needed to ensure in future that the methodology and associated instructions supporting the fixed asset re-valuation were visible to the Trust Board and External Auditors in advance of the Trust's valuers receiving those instructions.

Recommended – that the External Audit Annual Audit Letter 2015-16 be endorsed and recommended for Trust Board approval on 4 August 2016 as appended to these Minutes.

**AC
CHAIR/
CFO**

49/16 APOLOGIES

Apologies for absence were received from Dr S Dauncey, Non-Executive Director.

50/16 MINUTES

Resolved – that the Minutes of the meeting held on 25 May 2016 (papers A1 and A2) be confirmed as correct records.

51/16 MATTERS ARISING FROM THE MINUTES

Paper B advised of progress on actions from previous Audit Committee meetings. Audit Committee members noted additional information in respect of the following actions:-

(a) **Minute 33/16/2 of 25 May 2016** – in discussion on the need for assurance relating to medical records management as part of the EDRM pilot, the Chief Financial Officer undertook to liaise with Internal Audit and/or the Director of Corporate and Legal Affairs and document the sources of alternative assurance for those principal risks to the achievement of the Trust's objectives where no Internal Audit work had been planned in 2016/17 (as flagged previously in appendix 3 to the Internal Audit Plan 2016/17 presented to, and approved by, the Audit Committee on 25 May 2016). An update on this matter would be presented to Audit Committee in September 2016.

CFO

(b) **Minute 22/16/2 of 3 March 2016** – the Director of Corporate and Legal Affairs provided feedback from his discussion with the Training Manager who had advised that counter fraud, bribery and corruption training would be built-in to essential to job role training and an update would be provided to Audit Committee in September 2016, and

DCLA/
TM

(c) **Minute 80/15 of 5 November 2016** – in discussion on the need for regular assurance reports on the recovery of private patient debts, the Chief Financial Officer advised that an update on losses and compensation payments including private patient debts would be presented to Audit Committee in September 2016.

CFO

Resolved – that the matters arising report and any associated actions be noted and taken forward by the appropriate lead.

CFO/
DCLA

52/16 KEY ISSUES

52/16/1 Report by the Director of Performance and Information

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

53/16 ITEMS FROM THE LOCAL COUNTER FRAUD SPECIALIST (LCFS)

53/16/1 Counter Fraud Progress Report

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

53/16/2 Counter Fraud Annual Workplan 2016-17

Mr N Mohan and Ms G Lekh, Local Counter Fraud Specialists (LCFS), PwC attended the meeting to present the draft Counter Fraud Annual workplan for 2016-17 (paper E refers). Mr N Mohan advised that the plan had been developed following a full consideration of the NHS Anti-Fraud Standards and with due consideration of the wide range of fraud and corruption risks that could impact upon the Trust. Members' attention was drawn to appendix 2 of paper E providing examples of proactive detection exercises that PwC had undertaken for other Trusts.

Responding to a query from Colonel (Retired) I Crowe, Non-Executive Director, the

Chief Financial Officer confirmed that the Local Counter Fraud Specialists would be treated as part of the senior finance team. In response to a query from the Committee Chair in respect of any initial reflections on the Trust's operating environment, Mr N Mohan advised that a handover had taken place with the outgoing LCFS and the level of activity was deemed to be consistent with a Trust of this size.

Resolved – that the Counter Fraud Annual workplan for 2016-17 (paper E) be approved.

54/16 ITEMS FROM INTERNAL AUDIT

54/16/1 Internal Audit Progress Report

Paper F summarised the position in respect of the 2016-17 Internal Audit Plan. Since the May 2016 meeting, when the plan had been approved, one review had been completed.

In respect of the business continuity planning review, the Senior Manager, Internal Audit advised that the terms of reference for this review initially agreed had focussed on the planning arrangements around the potential extended junior doctors strikes. The work in respect of this review had been scheduled to commence on 20 June 2016, however, the Trust had requested that the focus of this review be changed to look at cyber resilience. In discussion on this issue, the Senior Manager, Internal Audit was requested to liaise with the Chief Operating Officer regarding the scope of the Business Continuity Planning review and with the Local Counter Fraud Specialist regarding the Cyber Resilience review to check which aspects of the latter review could be taken forward through the Counter Fraud arm.

IA

In respect of the 'Facilities Management – Transition from Interserve' review, the Senior Manager, Internal Audit advised that the management of the transition of services from Interserve to the Trust would be considered as part of this review. It would also include an assessment of how key processes and controls around facilities management had operated in a period of significant change and transition. The Committee noted that a scoping meeting for this review was scheduled to take place during week commencing 11 July 2016 and suggestions were sought from colleagues in respect of any other aspects that they would like to be considered as part of this review. In response, the Chief Financial Officer suggested that assurance on systems that had been transferred from Interserve, financial and transactional aspects might be useful. Mr A Johnson, Non-Executive Director suggested that assurance on performance in respect of the internal targets set by the Trust be considered. In discussion on this matter, the Senior Manager, Internal Audit was requested to ensure that the terms of reference of the 'Facilities Management – Transition from Interserve' review were signed-off by the Chief Financial Officer as well as the Director of Estates and Facilities.

IA

The Senior Manager, Internal Audit advised that good progress had been made with TrAction (Internal Audit's online action tracking system) and as of 29 June 2016, there were only 3 actions overdue and outstanding on the system with 1 action classed as medium risk and 2 classed as low risk.

Members were provided with assurance that discussions were taking place regarding future review of payroll processes and VAT support. The Chief Financial Officer highlighted that the payroll contract was due for renewal in due course.

Colonel (Retired) I Crowe, Non-Executive Director requested the Senior Manager, Internal Audit to make the Chief Information Officer aware of PwC's publication 'Digital Divide'.

IA

Resolved – that (A) the Internal Audit Progress Report be received and noted as paper F;

(B) the Senior Manager, Internal Audit be requested to liaise with the Chief Operating Officer regarding the scope of the Business Continuity Planning review and with the Local Counter Fraud Specialist regarding the Cyber Resilience review to check which aspects of the latter review could be taken forward through the Counter Fraud arm; IA

(C) the Senior Manager, Internal Audit be requested to ensure that the terms of reference of the ‘Facilities Management – Transition from Interserve’ review were signed-off by the Chief Financial Officer as well as the Director of Estates and Facilities, and IA

(D) the Senior Manager, Internal Audit be requested to make the Chief Information Officer aware of PwC’s publication ‘Digital Divide’. IA

54/16/2 Internal Audit Charter 2016-17

Resolved – that the Internal Audit Charter 2016-17 (paper G refers) be approved.

55/16 **ITEMS FROM EXTERNAL AUDIT**

55/16/1 Review of the 2015-16 Quality Account

External Audit presented paper I, an update on the review of the Trust’s 2015-16 Quality Account. External Audit confirmed that the quality account had been accurately reported in line with the Quality Account regulations. Work had been undertaken on the following two mandated indicators: (a) percentage of patients risk-assessed for venous thromboembolism (VTE), and (b) Friends and Family Test patient element score. This work had concluded that there was sufficient evidence to provide a limited assurance opinion. External Audit recorded their thanks to the Director of Clinical Quality and her team for the good work undertaken in respect of the Quality Account.

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

55/16/2 External Audit Review of Payroll Analytics

Resolved – that, due to this report being unavailable, it be deferred to Audit Committee in September 2016. EA

56/16 **FINANCE – STRATEGIC AND OPERATIONAL ISSUES**

56/16/1 2015-16 Annual Accounts Debrief

The Director of Operational Finance presented paper K, providing an update on the review of external and internal approval processes due to the significant changes that had been made at a late stage to the 2015-16 annual accounts and other key documents. This had compromised the effectiveness of the Audit Committee (at its meeting on 25 May 2016) in its role as the Committee of the Trust Board charged with recommending the adoption of the annual accounts and associated documents.

The Committee recalled that the two key changes relating to the annual accounts had been:

- changes relating to the year-end fixed asset re-valuation, and
- changes relating to the completion of KPMG’s final review.

The lateness of changes had resulted in a paper being tabled at the 2 June 2016 Trust Board meeting that had detailed the amendments made to the documents.

Members noted that a number of lessons learned had been listed in the report, including:

- better communication and earlier sharing of information;
- later start date was necessary for the audit, and
- the need for more regular progress reviews during the audit.

The Director of Operational Finance advised that the conclusions from this review would be discussed with External Audit and built into the 2016-17 accounts closedown timetable.

The Committee Chair welcomed the report, noting that the review had been initiated by the Finance Team. The Director, KPMG accepted the recommendations listed in the report and noted the need to work together to make the process more streamlined in future. The Chief Financial Officer highlighted an opportunity for him to be directly involved at an earlier stage in the preparations of the 2016-17 annual accounts.

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

56/16/2

Purchase to Pay Process

The Financial Controller presented paper L, a report to inform the Audit Committee of the progress in improving the Purchase to Pay (P2P) processes. He advised that Internal Audit's 2015-16 financial systems report had included a number of recommendations in relation to the performance of the Trust's P2P process. Further to this, the Trust had also identified a number of other improvements that needed to be made, primarily through the Purchase to Pay Improvement Group. An action plan was in place to take forward the recommendations from Internal Audit's review and the internal improvements that had been identified. The Director of Operational Finance also noted the need for improving cash management processes, highlighting that a report on this matter had been submitted to IFPIC in June 2016.

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

56/16/3

Review of Risks and Controls Around Financial Management – Annual Audit Committee Review

Paper M was provided to support the Audit Committee in its role in ensuring there was appropriate control over the Trust's financial position (as noted in its terms of reference). Members noted that the Trust had the appropriate governance arrangements in place to monitor, control and report on its financial performance.

Responding to a query from the Chief Financial Officer, the Director of Corporate and Legal Affairs confirmed that it would be preferable if this report was presented to the Audit Committee at the start of each financial year.

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

56/16/4

Discretionary Procurement Actions

Paper N provided a summary of discretionary procurement actions between March and June 2016.

The Chief Financial Officer noted that 4 out of the 5 procurement actions listed in paper N were in respect of outsourcing activity, highlighting that regular procurement processes were not being followed and short-term procurement routes were being used instead. In discussion on this matter, he undertook to liaise with the Chief Operating Officer's team to understand the reasons for regular procurement processes not being followed and tender waivers being applied for the procurement

CFO

actions listed on paper N and an update would be provided to Audit Committee in September 2016.

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

(B) the Chief Financial Officer be requested to ensure that a discussion was held with the Chief Operating Officer's team to understand the reasons for the outsourcing activity and regular procurement processes not being followed for a number of procurement actions listed on paper N as submitted to the Audit Committee on 7 July 2016.

CFO

(C) an update on this matter be provided to Audit Committee in September 2016.

CFO

57/16 ITEMS FROM THE LOCAL SECURITY MANAGEMENT SPECIALIST

57/16/1 Local Security Management Specialist Progress Report and Annual Plan 2016-17

Mr R Manton, Risk and Safety Manager attended the meeting to present paper O, an update on progress against the Local Security Management action plan. He advised that good progress was being made following the transfer of facilities management services from Interserve to UHL.

There had been two actions where timescales had slipped:-

- 'the comparison of UHL crime activity and local community crime activity' – data was currently awaited from Leicestershire Police, and
- 'establish clear policy and procedure for sharing of information and control/use of CCTV systems' – there had been some delay in respect of this action as there was a need to review the content of the relevant policy prior to its submission to the Policy and Guideline Committee.

In discussion on the age of the CCTV systems across the three hospital sites, the Risk and Safety Manager was requested to ask the Director of Safety and Risk to liaise with the Chief Financial Officer outwith the meeting regarding whether a programme of renewal of CCTV systems should be developed for consideration for funding.

RSM

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

(B) the Risk and Safety Manager be requested to arrange for the Director of Safety and Risk to liaise with the Chief Financial Officer outwith the meeting regarding whether a programme of renewal of CCTV systems should be developed for consideration for funding.

RSM

58/16 GOVERNANCE

58/16/1 Integrated Risk Management Report (including Board Assurance Framework (BAF) and UHL Risk Register)

Mr R Manton, Risk and Safety Manager presented paper P, a report providing a summary of risks being managed at a local level and linked to the Board Assurance Framework (BAF) which was subsequently used to inform the Annual Governance Statement. In addition, the report provided an overview of the current UHL risk management process identifying areas of good practice and areas of concern along with proposals for improvement.

During the reporting period, three new risks scoring 15 and above had been entered on the risk register, one risk had increased to high, 12 risks had reduced from high to moderate and one risk had been closed.

The Chief Financial Officer requested the Risk and Safety Manager to update the risk score of 'Principal Risk 2 - Failure to provide an appropriate environment for staff/patients' from 8 to 12 as this had been agreed at the EQB meeting in July 2016.

RSM

Members were advised that the BAF was refreshed by each Executive risk owner taking account of the new annual priorities, with each entry being endorsed at the appropriate Executive Board prior to a final version being presented to the Trust Board. However, 'bedding in' of the new BAF update/reporting framework was still in progress, meaning that not all entries had been subject to the appropriate level of scrutiny by Executive Boards. In response to a query from Mr M Traynor, Non-Executive Director, the Director of Corporate and Legal Affairs advised that the principal risks identified for discussion at each Executive Board were scheduled at the beginning of the agenda, however, there had been 'teething' issues in providing appropriate airtime for the discussion of some of these risks. The Risk and Safety Manager advised that, due to these issues, a revised reporting framework incorporating quarterly reporting of the BAF in its entirety and monthly exception reporting against key lines of enquiry was under consideration. The Committee Chair expressed concern that a revised reporting framework might cause timing issues for the Audit Committee. In response, it was noted that discussions were still on-going between the Chief Executive and the Risk and Assurance Manager and a consensus had not yet been reached in respect of the need to move to a revised reporting framework.

In respect of a query from the Committee Chair in relation to horizon scanning arrangements, the Risk and Safety Manager advised that CMG colleagues had been asked to provide this information, however, this remained work in progress.

The Committee Chair suggested that an additional column/colour coding was included on the organisational risk register dashboard to indicate the risks that had not been addressed within the target period – the Risk and Safety Manager undertook to action this.

RSM

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

(B) the Risk and Safety Manager be requested to update the risk score of 'Principal Risk 2 – Failure to provide an appropriate environment for staff/patients' from 8 to 12 as this had been agreed at the EQB meeting in July 2016, and

RSM

(C) the Risk and Safety Manager be requested to ensure that an additional column/colour coding was included on the organisational risk register dashboard to indicate the risks that had not been addressed within the target period.

RSM

58/16/2

Board Assurance Framework – Review of Principal Risk 3 (Emergency Attendance/Admissions Increase)

Further to Minute 42/16/1 of 25 May 2016, the Audit Committee Chair introduced discussion on this item advising that it was the Audit Committee's intention to undertake a deep-dive of specific principal risks featuring within the Board Assurance Framework. A review of Risk 3 (Emergency Attendance/Admissions Increase) had been selected for review at this Audit Committee meeting as this had been the highest rated risk for some time. Furthermore, there was concern among some of the Trust's Non-Executive Directors that progress in this area had slowed. The Audit Committee Chair requested that discussion be focussed as a challenge to the Trust Board to consider whether this risk was being effectively managed and whether the Trust Board was demonstrating good governance in this area.

Mr R Mitchell, Chief Operating Officer attended the meeting to provide an update on

the drivers behind the Trust's emergency performance (paper Q refers). He highlighted that the score of the risk in question was 25 and, in his view, represented the highest risk across the health system. He advised that there were three factors driving emergency care performance in UHL:-

- (a) **Increasing demand** – since September 2012, emergency admissions had increased by 32%. Since June 2015, demand had increased by 5% and future increases had been forecasted. Attendances had increased at a greater rate than the admissions increase, which showed that some of the actions in place to avoid admissions were working. The greatest increase in admissions had been from Leicester City CCG patients (as compared to County CCG patients), and the Chief Operating Officer commented that there needed to be clarity that the key to admission avoidance lay in the hands of primary care, rather than just in acute care;
- (b) **Increasing imbalance between demand and capacity** – whilst demand had increased, the number of medical beds had reduced. The Trust's best performance over the last four years had been in June 2015. At the end of June 2015, a ward at LRI and a ward at GGH had been closed and the bed base had been reduced by 10% and 12% respectively. This was to support actions to comply with Care Quality Commission requirements and in connection with changes to vascular services. Although ED performance had deteriorated significantly after June 2015, medical length of stay had reduced by 9% over the same period of time. The maximum number of patients that could be admitted per day at the LRI was 69 patients. The Chief Operating Officer highlighted that there had been fewer than 70 medical patients admitted on just 76 of the last 538 days (i.e. between 1 January 2015 and 15 June 2016). Demand had been 16% greater than the capacity available over this period of time, and
- (c) **Internal operational performance** – the Chief Operating Officer commented that there was undoubtedly a requirement for significantly improving 'operational grip' within the Trust. In particular, increased buy-in was required from Emergency Department (ED) Consultants. There was unwillingness from some teams to recognise that they had the ability to improve performance despite high demand and inconsistent outflow.

The Chief Operating Officer reiterated that, although the scoring of this risk had not decreased for a significant length of time, there had been no lack of effort to put actions in place to improve performance.

The Committee Chair noted the need for challenge on the following points:-

- (i) given the increases in demand and the level of risk, was the Trust doing everything it could on the ground to make ED as safe as it could on a day to day basis?
- (ii) as an organisation, was the Trust displaying good governance in this area?

In response, the Chief Operating Officer advised that the governance had hitherto been sub-optimal and significant effort was required to resolve the issues. Although the senior CMG team had been sighted to the issues, a number of internal improvement actions had still not been completed. He also suggested that more could be done to make ED as safe as possible.

Colonel (Retired) I Crowe, Non-Executive Director commented that, internally within the Trust, there was resistance to change, cultural issues and a lack of agility and that externally there were a number of actions which had not been completed by healthcare partners by the deadline dates. Members noted the need for an open and honest discussion on the actions that should be taken to improve emergency care performance at the Trust Board Thinking Day on 14 July 2016.

COO

It was also noted that discussion with external partners and buy-in from the ED team was required. Mr A Johnson, Non-Executive Director, noted that the Trust was currently exhibiting a 'victim mentality' and advised that there were a still a number of actions that could be taken internally to improve the situation.

The Committee concluded that this had been a useful and honest discussion and hoped a similar approach would be carried into the Trust Board Thinking Day (TBTD) on 14 July 2016. It was also noted that there was no assurance regarding delivery of actions that would help to bring about an improvement in emergency care performance as set out within the LLR Sustainability and Transformation Plan and discussion on this matter should also take place at the July TBTD session.

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

(B) actions to improve Emergency Care performance be discussed at the Trust Board Thinking Day on 14 July 2016.

COO

58/16/3

Audit Committee Objectives 2016-17

Further to Minute 36/16/3 of 25 May 2016, Paper R explained the results of the Audit Committee's self-assessment exercise undertaken in February 2016 in relation to the identification of priorities for the Committee for 2016-17.

As a 'development' objective, the Committee Chair proposed that the Committee considered how it might audit the culture of the organisation. Given the growing recognition of the importance of culture in driving corporate behaviour, Board Intelligence had been helping the Financial Reporting Council to gather insight on corporate culture and to shape thoughts on how this may be audited. It was proposed that the Committee trialled an audit of culture in one or more areas of the organisation and be part of this learning process. The Director of Corporate and Legal Affairs undertook to liaise with the Director of Workforce and Organisational Development regarding the proposal that an audit of organisational culture be undertaken. An update on this matter would be provided to Audit Committee in September 2016.

DCLA

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

(B) the Director of Corporate and Legal Affairs be requested to liaise with the Director of Workforce and Organisational Development regarding the proposal that an audit of organisational culture be undertaken, and

DCLA

(C) an update on this matter be provided to Audit Committee in September 2016.

DCLA

58/16/4

Consolidated List of Outstanding and In-Progress actions following Internal Audit, External Audit and LCFS Recommendations

Paper S from the Director of Corporate and Legal Affairs advised the Audit Committee of progress against outstanding actions from Internal Audit, External Audit and Local Counter-Fraud Specialist reports. There were four extended deadline requests which had received EPB approval on 28 June 2016. Two actions in respect of the 'Review of Cancelled Operations' had now been closed. The Senior Manager, Internal Audit advised that good progress had been made in respect of closing the actions.

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

59/16

ITEMS FOR INFORMATION

59/16/1

Final ISA260 Audit Highlights Memorandum

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

60/16 ASSURANCE GAINED FROM THE FOLLOWING COMMITTEES ON KEY RISKS/ISSUES OF THE TRUST

60/16/1 Quality Assurance Committee

Resolved – that the **Quality Assurance Committee Minutes** from the meetings on 28 April 2016 (paper U1) and 26 May 2016 (paper U2) be received and noted.

60/16/2 Integrated Finance, Performance and Investment Committee

Resolved – that the **Integrated Finance, Performance and Investment Committee Minutes** from the meetings on 28 April 2016 (paper V1) and 26 May 2016 (paper V2) be received and noted.

60/16/3 Charitable Funds Committee

Resolved – that the **Charitable Funds Committee Minutes** from 5 May 2016 (papers W&W1) be received and noted.

61/16 ANY OTHER BUSINESS

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

62/16 IDENTIFICATION OF KEY ISSUES THAT THE COMMITTEE WISHES TO DRAW TO THE ATTENTION OF THE TRUST BOARD

Resolved – that the following items be brought to the attention of the Trust Board:-

AC Chair

- Minute 48/16 – External Audit Annual Audit Letter 2015-16 (as appended to these minutes);
- Minute 54/16/2 – Internal Audit Charter 2016-17, and
- Minute 58/16/2 – Board Assurance Framework – Review of Principal Risk 3 (Emergency Attendance/Admissions Increase).

63/16 DATE OF NEXT MEETING

Resolved – that the next meeting be held at 2pm on Thursday 1 September 2016 in the C J Bond Room, Clinical Education Centre, LRI.

The meeting closed at 4:00pm

Hina Majeed, Trust Administrator

Cumulative Record of Members' Attendance (2016-17 to date):

Name	Possible	Actual	% attendance
R Moore (Chair)	2	2	100%
I Crowe	2	2	100%
S Dauncey	2	0	0%
A Johnson	2	2	100%
M Traynor	2	2	100%

Attendees

Name	Possible	Actual	% attendance
N Sone	2	2	100%
S Ward	2	2	100%
P Traynor	2	2	100%



Annual Audit Letter 2015/16

University Hospitals of Leicester NHS Trust

30 June 2016

Contents

The contacts at KPMG in connection with this report are:

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Introduction

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Appendices

A. Key recommendations

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B. Summary of our reports issued

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This report is addressed to University Hospitals of Leicester NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jonathan Brown, the engagement lead to the Trust, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 6948981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.



Introduction

Introduction

Background

This Annual Audit Letter (the letter) summarises the key issues arising from our 2015/16 audit at University Hospitals of Leicester NHS Trust (the Trust). Although this letter is addressed to the Directors of the Trust, it is also intended to communicate these issues to external stakeholders, such as members of the public. It is the responsibility of the Trust to publish the letter on the Trust's website at <http://www.leicestershospitals.nhs.uk/>.

In the letter we highlight areas of good performance and also provide recommendations to help the Trust improve performance. We have included a summary of our key recommendations in Appendix A. We have reported all the issues in this letter to the Trust during the year and we have provided a list of our reports in Appendix B.

Scope of our audit

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. Our main responsibility is to carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code) which requires us to report on:

Financial Statements including the Annual Governance Statement	<p>We provide an opinion on the Trust's accounts. That is whether we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year.</p> <p>We also confirm that the Trust has complied with the Department of Health (DoH) requirements in the preparation of its Annual Governance Statement. We also confirm that the balances you have prepared for consolidation into the Whole of Government Accounts (WGA) are not inconsistent with our other work.</p>
Use of Resources (UoR)	<p>We conclude on the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust's use of resources.</p>

Adding value from the External Audit service

We have added value to the Trust from our service throughout the year through our:

- Attendance at meetings with members of the Executive Team and Audit Committee to present our audit findings, broaden our knowledge of the Trust and to provide insight from sector developments and examples of best practice;
- A proactive and pragmatic approach to issues arising in the production of the financial statements to ensure that our opinion is delivered on time;
- A review of general IT controls in place at the Trust highlighting any areas for improvement; and
- Building a strong and effective working relationship with Internal Audit to maximise assurance to the Audit Committee, avoid duplication and provide value for money.

Introduction (cont.)

Fees

Our fee for 2015/16 was £132,906 excluding VAT (2014/15: £173,875). This was in line with the fee agreed at the start of the year with the Trust's board. Our fees are set nationally by Public Sector Audit Appointments Ltd and reflect a significant 25% reduction made nationally to scale fees. This fee includes £10,000 for additional audit work relating to the financial standing risk as reported in our Audit Plan and ISA260. This is subject to PSAA approval.

We have also completed the following non audit pieces of work at the Trust during the year:

Tax Support	Tax support to the Trust in the establishment of a Pharmacy Subsidiary company to provide outpatient, home care and To Take Out services. The fee for this work was £22,000 excluding VAT.
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Acknowledgement

We would like to take this opportunity to thank the officers of the Trust for their continued support throughout the year.



Headlines

Headlines

This section summarises the key messages from our work during 2015/16.

Overall financial results and other key messages	<ul style="list-style-type: none">— Financially, 2015/16 was another challenging year for the Trust as it recorded a deficit of £34.1 million. As a consequence of the deficit, the Trust was unable to generate sufficient cash to fund their expenditure, and had required external revenue support to facilitate this. Support has also been sought to finance necessary capital expenditure, which is essential to the long-term reconfiguration of the estate to obtain sustainable clinical and financial benefits. The overall financing position has moved from an opening balance of £12 million to a total of £55.6 million, with £1 million incurred in interest charges during 2015/16.— At the end of year three the Trust had recorded a cumulative deficit of £114.4 million.— The Trust delivered its 2015/16 CIP target of £43 million, which is a continuation of strong delivery against last year's £48 million savings.— The Trust did not meet the following performance targets, which additional funding is predicated on the Trust meeting such key targets:<ul style="list-style-type: none">— Cancer: 62 day pathway (target 85%) – not met at all during 2015/16, year to date performance is 77.4%— Diagnostics: 6 week wait (target 1%) – achieved 2 months during 2015/16, year to date performance is 1.1%— RTT: 18 week pathway (target 92%) – achieved throughout 2015/16, year to date performance is 92.6%— ED: 4 hour turnaround (target 95%) – not met at all during 2015/16, year to date performance is 86.9%
Use of Resources conclusion	<ul style="list-style-type: none">— We concluded that the Trust has not put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the following reasons:<ul style="list-style-type: none">— The Trust incurred a deficit for 2015/16 of £34.1 million and as a result experienced significant cash flow restrictions in the year, this had resulted in poor performance against the Better Payment Practice Code (BPPC), with the administrative targets for both NHS and non-NHS payments not met.— The Trust required external revenue support to facilitate the cash flow restrictions incurred.— NHS Trusts have a statutory duty to break even over a three-year period (or a five-year period with the agreement of NHS Improvement). The Trust recorded a deficit of £34.1 million in 2015/16, which as noted above had resulted in a cumulative deficit at the end of year three of £114.4 million. As the Trust had not met this statutory duty, we have written to the Secretary of State outlining these fact.— Additional funding is predicated on the Trust meeting key targets which it is currently underperforming.— The Trust had prepared its accounts on a Going Concern Basis as there was no evidence of a prospect of services ceasing altogether at the Trust, however given the cumulative financial deficit of £114.4 million that the Trust had made for the last three financial years, we issued a qualified (except for) conclusion on the Trust's Use of Resources conclusion.

Headlines (cont.)

<p>Use of resources risk areas</p>	<ul style="list-style-type: none"> — We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. — Our work identified the following significant risks: <ul style="list-style-type: none"> — Risk 1 - Financial Standing/Business Planning - Due to the significant financial challenge in the sector we undertook a detailed consideration of the Trust's financial position and financial sustainability. The Trust prepared its accounts on a Going Concern Basis, however given the cumulative financial deficit of £114.4 million that the Trust has made for the last three financial years, we issued a qualified (except for) conclusion on the Trust's Use of Resources conclusion.
<p>Financial Statements audit opinion</p>	<ul style="list-style-type: none"> — We issued an unqualified opinion on the Trust's accounts on 3 June 2016. This means that we believe the accounts give a true and fair view of the financial affairs of the Trust and of the income and expenditure recorded during the year. — One significant adjustment was identified as part of the audit due to the treatment of VAT in asset valuations. We identified that the Trust had instructed Gerald Eve to value the estate net of VAT under the assumption that such construction would be completed utilising an estate subsidiary company which would allow the Trust to reclaim related VAT. Our view was that as of 31 March 2016, the Trust was unable to show clear intention or ability to procure through such a route (there was no Special Purpose Vehicle with HMRC approval in place), then it was inappropriate to value net of VAT. — There were no significant matters which we were required to report to those charged with governance.
<p>Financial statements audit work undertaken</p>	<ul style="list-style-type: none"> — We are required to apply the concept of materiality in planning and performing our audit. We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. Our materiality for the audit was £15 million (2014/15: £15 million). — We identified the following risk of material misstatement in the financial statements as part of our External Audit Plan 2015/16: <ul style="list-style-type: none"> — Risk 1 - Valuation of land and buildings - The asset valuation and impairment review processes are both estimates and therefore presented a higher level of risk to the audit. We undertook procedures over the valuation, completeness and accuracy of material fixed asset balances. The Trust amended for a number of adjustments identified. — Risk 2 - Recognition of NHS and non-NHS income - Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant audit risk and therefore classified income recognition as a significant audit risk. Our procedures considered the completeness, existence and accuracy of the balances recorded within the financial statements. We have not identified any issues from our work. — Risk 3 - Fraud risk from revenue recognition - We classified recognition of NHS and non-NHS income as a significant audit risk for 2015/16 and have outlined above the audit work we have undertaken on this, which fulfils our responsibilities for this objective. — Risk 4 - Fraud risk from management override of controls - Professional standards require us to communicate the fraud risk from management override of controls as a significant risk. Our procedures, including testing of journal entries, accounting estimates and significant transaction outside the normal course of business, no instances of fraud were identified.

Headlines (cont.)


Annual Governance Statement	<ul style="list-style-type: none">— We have also confirmed that the Trust have complied with the Department of Health requirements in the preparation of the Trust's Annual Governance Statement.— No significant adjustments were required to the Annual Governance Statement.
Whole of Government Accounts	<ul style="list-style-type: none">— We issued an unqualified Group Audit Assurance Certificate to the National Audit Office regarding the Whole of Government accounts submission with no exceptions.
Recommendations	<ul style="list-style-type: none">— We raised one medium risk recommendation as a result of our 2015/16 audit work.— We reiterated one prior year high risk recommendation, which requires further action by management. These are summarised in Appendix A.
Public Interest Reporting	<ul style="list-style-type: none">— We have a responsibility to consider whether there is a need to issue a public interest report or whether there are any issues which require referral to the Secretary of State. As the Trust had not met its statutory duty to break even over a three-year period, we wrote to the Secretary of State outlining these fact in what is referred to as a Section 30 referral letter.
Fraud	<ul style="list-style-type: none">— No fraud related matters were identified.



Appendices

Key recommendations

Recommendations raised in 2015/16

No.	Risk	Issue, impact and recommendation
1	 Medium	<p>Valuation Assumptions and Methodology In 2015/16, the Trust changed its approach to valuations. Gerald Eve was instructed as valuer to undertake the valuation using an alternative site basis as part of the assumptions for valuing their specialised properties with a depreciated replacement cost on a modern equivalent asset basis.</p> <p>Recommendation The Trust should present a paper to the Audit Committee in advance of applying a new or amended methodology, in order that appropriate discussions can be had, and assurances obtained, over the proposed approach. Such a paper therefore would also allow external auditors sight of such assumptions in advance, ensuring any issues arising could be addressed prior to the final accounts visit.</p>

This appendix summarises all high and medium risk recommendations raised in 2015/16.

Key recommendations

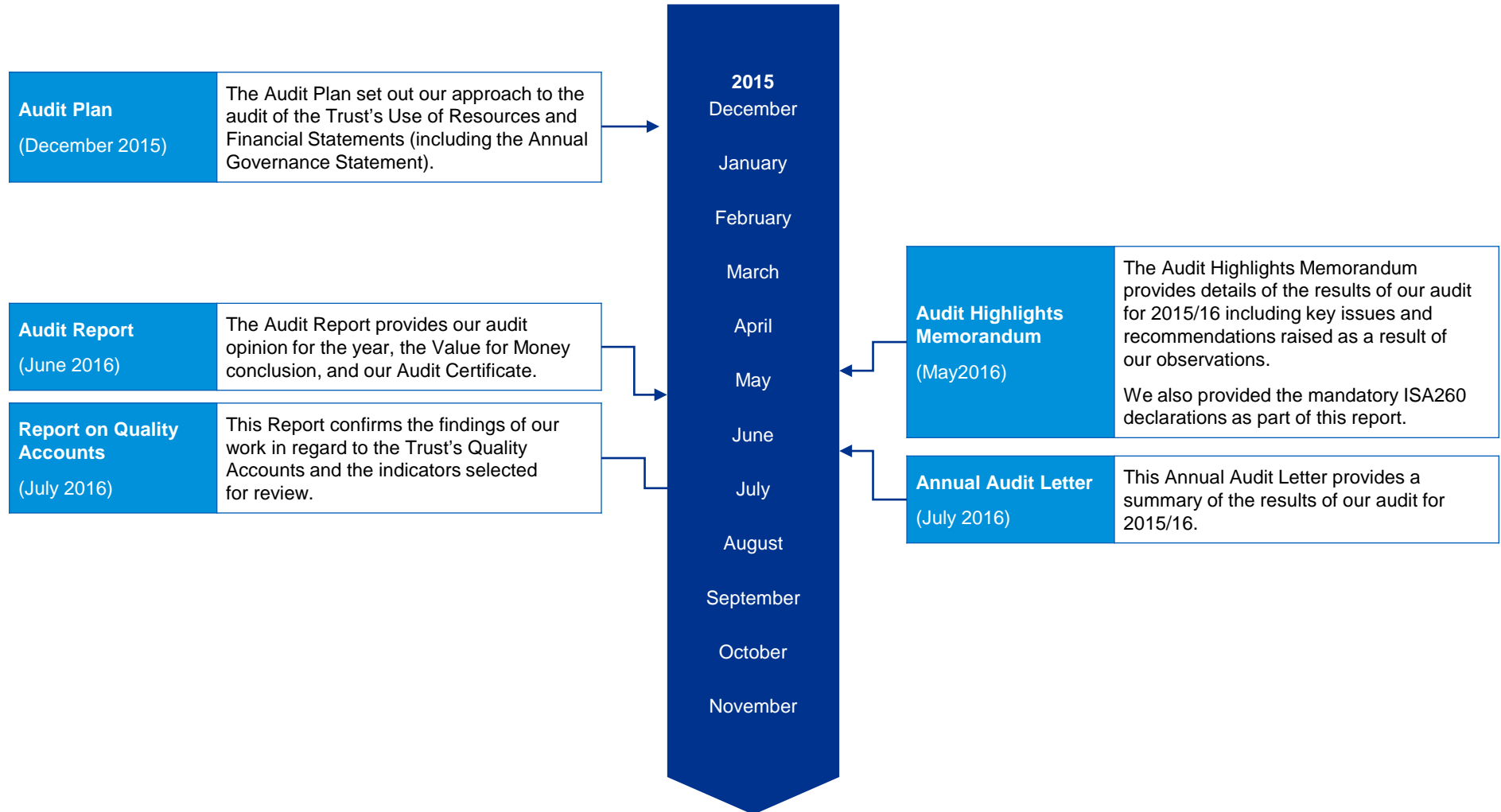
Recommendations from previous years

No.	Risk	Issue, impact and recommendation	Current status
1	<p style="text-align: center;">●</p> <p>High</p>	<p>Revaluations</p> <p>The Trust instructed Gerald Eve to undertake two valuations during the year, a full valuation as of 30 September 2014, and another valuation as of 31 March 2015. At the time of our audit, the Trust was unsure what the second valuation entailed and could not provide evidence whether this was another ‘full valuation’ or a ‘top-up valuation’. As a result of this confusion, issues have been raised with regards to the treatment of depreciation in respect of assets further revalued at year end.</p> <p>Additionally, our prior year recommendation in respect of strengthening the quality assurance procedures in relation to valuations have not been fully implemented by the Capital Accountant.</p> <p>Moreover, the Trust instructed Gerald Eve to undertake a full valuation exercise in 2015/16 as of 31 March 2016. The Trust received valuation figures from Gerald Eve during the closedown process in order to process accounting entries required for the financial statements, but did not receive the detailed valuation report nor engagement letter until 25 April 2016. These documents included information regarding the methodology adopted by the valuer and the assumptions feeding into this. Whilst this information was requested in our Prepared By Client document to be reviewed during our interim visit in February 2016, we were not provided with these reports until the end of the first week of our on site final accounts visit. The valuation engagement letter was signed on behalf of the Trust as accepted on 19 May 2016 after the report had been issued.</p> <p>Recommendation</p> <p>The Trust should ensure that it undertakes the necessary quality assurance procedures in a timely manner, and appropriate evidence to support these is available at the start of the audit. Additionally, the Trust should reassess the approach of having valuations at multiple points in the year, and consider whether the accounting complications arising from this, and the need to provide two sets of audit evidence, outweigh the intended efficiency of the exercise.</p>	<p>The Trust instructed Gerald Eve to undertake a full valuation exercise in 2015/16 as of 31 March 2016.</p> <p>The Trust received valuation figures from Gerald Eve during the closedown process in order to process accounting entries required for the financial statements, but did not receive the detailed valuation report nor engagement letter until 25 April 2016. These documents included information regarding the methodology adopted by the valuer and the assumptions feeding into this.</p> <p>Whilst this information was requested in our Prepared By Client document to be reviewed during our interim visit in February 2016, we were not provided with these reports until the end of the first week of our on site final accounts visit.</p> <p>The valuation engagement letter was signed on behalf of the Trust as accepted on 19 May 2016 after the report had been issued.</p> <p>Recommendation reiterated</p>

This appendix summarises outstanding high and medium risk recommendations from previous years.

Appendix B

Summary of our reports issued





The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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