

Trust Board paper O1

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

REPORT BY TRUST BOARD COMMITTEE TO TRUST BOARD

DATE OF TRUST BOARD MEETING: 5 July 2018

COMMITTEE: Audit Committee

CHAIR: Mr R Moore, Non-Executive Director

DATE OF COMMITTEE MEETING: 25 May 2018

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

- **Draft annual report and annual accounts 2017-18 (Minute 16/18)**

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

- **None**

DATE OF NEXT COMMITTEE MEETING: 6 July 2018

**Mr R Moore
Non-Executive Director and Audit Committee Chair**

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON FRIDAY 25 MAY 2018 AT 12.35PM IN THE C J BOND ROOM, CLINICAL EDUCATION CENTRE, LEICESTER ROYAL INFIRMARY

Voting Members present:

Mr R Moore – Non-Executive Director and Committee Chair
Col (Ret'd) I Crowe – Non-Executive Director
Mr A Johnson – Non-Executive Director
Mr M Traynor – Non-Executive Director

In attendance:

Mr J Adler – Chief Executive
Mr C Benham – Director of Operational Finance
Mrs C Bru – PwC (the Trust's Internal Auditor)
Mrs S Hotson – Director of Clinical Quality (for Minute 16/18 [part])
Ms T Jones – Deputy Director of Communications and Engagement
Mr N Sone – Financial Controller
Mr M Stocks – Partner, Grant Thornton (the Trust's External Auditor) (for Minute 16/18)
Ms H Stokes – Corporate and Committee Services Manager
Mr P Traynor – Chief Financial Officer
Mr S Ward – Director of Corporate and Legal Affairs

RECOMMENDED ITEMS

ACTION

16/18

DRAFT ANNUAL REPORT AND ANNUAL ACCOUNTS 2017-18

The Audit Committee Non-Executive Director Chair advised that following lengthy discussions prior to this meeting, items associated with the Annual Report and the Annual Accounts 2017-18 would be the only business transacted in detail today. Other than the Counter-Fraud Annual Report 2017-18 at Minute 20/18/1 below, all other items would be deferred to the July 2018 Audit Committee.

Papers C1-C10 were presented for Audit Committee consideration as follows:-

- (i) paper C1 - Going Concern Statement 2018-19;
- (ii) paper C2 – draft statutory accounts 2017-18;
- (iii) paper C3 – ISA 260 Audit Highlights Memorandum (comprising elements c3a – c3c: respectively the audit findings report, IT controls and Independent Auditors' report to the Directors of UHL NHS Trust);
- (iv) paper C4 – section 30 referral letter to the Secretary of State for Health (as, taking 1 year against another over a 3-year rolling period the Trust had not achieved a break-even position as required under section 30 of the Local Audit and Accountability Act 2014);
- (v) paper C5 – Letter of Representation (tabled);
- (vi) paper C6 – Internal Audit Annual Report 2017-18 and Head of Internal Audit Opinion;
- (vii) paper C7 – draft Annual Governance Statement 2017-18;
- (viii) paper C8 – draft Annual Report 2017-18;
- (ix) paper C9 – draft Quality Account 2017-18, including the Directors' statement, and
- (x) paper C10 – External Audit Opinion on the Quality Account 2017-18 and Letter of Representation.

Detailed discussion now took place on paper C3a (audit findings report), as now tabled. Mr M Stocks, Partner, Grant Thornton (the Trust's External Auditor) advised that a number of issues had arisen which at £16.2m were close to (but below) the materiality threshold of £16.4m – the 3 issues in question were set out below:-

(1) UHL's VAT reclaim following the establishment of the Estates subsidiary

External Audit outlined a number of concerns over the accounting treatment adopted by the Trust, primarily relating to a lack of precedent for a retrospective claim, a query over the level of certainty of HMRC's approval of such a claim, and whether it was appropriate to account for the entire £12.5m reclamation in the 2017-18 year given External Audit's view that VAT claims were usually recognised in line with periods when the reclaims were made [ie across a 10-year period]. External Audit had therefore reported this as an unadjusted mis-statement of £12.5m. External Audit noted that despite previously requesting sight of Ernst Young's accounting advice to the

Trust on this issue, receipt of that advice on the evening of 24 May 2018 had not provided sufficient time for review.

Trust management response: the Chief Financial Officer advised that this issue had been discussed at length during the accounts process, and he noted that specialist tax advice on the creation of an LLP had been provided to the Trust by Ernst Young. The Chief Financial Officer confirmed that he was content with the accounting treatment adopted by the Trust on this issue. At the request of the Audit Committee earlier today, the Chief Financial Officer had also obtained further detail from Ernst Young, clarifying that their accounting advice was that the £12.5m could be accounted for in 2017-18. That further accounting advice was now tabled for the information of the Audit Committee.

Audit Committee comments: in response to a query from the Audit Committee Non-Executive Director Chair on the likelihood of receiving the VAT reclamation, External Audit emphasised that the final arbiter would be HMRC – in the absence of a precedent, External Audit considered that UHL's approach constituted a risk which might be carried over a significant period. Although respectful of Ernst Young, External Audit noted the different view of its own VAT advisers. In discussion, the Chief Executive advised that – although the initial advice from Ernst Young should have contained greater clarity on the timing of the VAT reclamation – the further detail obtained from them and now tabled by the Chief Financial Officer was unequivocal in its advice. The issue therefore seemed to be one of a difference in professional opinion between 2 companies. The Chief Executive considered that the tabled detail provided sufficient assurance on the Trust's approach, although he commented on the need for a review of how the current position (of having to seek that further detail) had been reached. Noting External Audit's earlier comments about having requested sight of the Ernst Young advice from UHL, the Audit Committee Non-Executive Director Chair echoed the need to review the processes leading up to this point. Col (Ret'd) I Crowe Non-Executive Director commented that it would have been helpful for Ernst Young to have been present at this Audit Committee meeting. The Audit Committee also requested that the issue of VAT reclamation be clarified and reported to a future meeting.

CFO

(2) UHL's debt (particularly aged debt over 180 days old)

The balance of unimpaired debt was approximately £5m and External Audit's sample testing indicated that some of that debt was not collectable – External Audit's extrapolation indicated an unadjusted error of £2.6m which was therefore included in the unadjusted misstatements.

Trust management response: the Director of Operational Finance advised that the Trust provided for debt using a specific rather than a % based approach. Although recognising the scope to improve debt management processes, he considered that UHL's approach to debt provision was robust. The Trust considered that more of the debt could be recovered than was envisaged by External Audit.

Audit Committee comments: Non-Executive Directors emphasised the need for an improvement in the Trust's debt position going forward, and requested that a comprehensive assessment be undertaken of all aged debtors of 180 days or more and reported to a future meeting of the Audit Committee during 2018 (with appropriate recommendations).

CFO

(3) UHL's increase of asset lives by up to 2 years

External Audit noted that this had been the subject of several discussions with UHL's finance team. Following assessment, the Trust had reduced the depreciation charge in-year by £4.4m – External Audit had reviewed the asset lives for buildings against those provided by the Trust's valuer and had noted that UHL had not followed the advice of its expert; as such, External Audit considered the reduction in depreciation to be an error of £1.1m. The increase in asset lives for other assets was not considered unreasonable by External Audit.

Trust management response: although acknowledging that UHL was extending the lives of its buildings longer than the desktop review might indicate, the Director of Operational Finance advised that Trust management was comfortable that this was an appropriate treatment.

Audit Committee comments: the Audit Committee requested that UHL's depreciation policies be clarified and consistently implemented accordingly in 2018-19. Once reviewed, the policies should be presented to the Audit Committee for discussion.

CFO

External Audit also voiced concern over the Trust's application of accrual accounting policy to exclude all manual accruals under £10,000 (previously £5,000) and all automatic accruals under £10,000 (previously £nil), with the impact of reducing expenditure by £2.3m. External Audit noted that as this impacted on the Trust's financial position, they had requested representations on the matter in the Letter of Representation. In response, the Director of Operational Finance advised that the 2016-17 *de minimus* accrual value of £5,000 had not been consistently applied as only manual accruals had been captured. The approach had therefore been reviewed in 2017-18 to capture both manual and automatic accruals, and £10,000 was considered to be an appropriate level.

External Audit confirmed that although not in agreement with the Trust's VAT approach, they were able to issue an unqualified opinion on the annual accounts 2017-18, as the issues identified above were below the materiality threshold. In respect of value for money, External Audit anticipated that a qualified adverse conclusion would be issued, and they also confirmed that a Section 30 Letter had been issued for the reasons in point (iv) above.

Subject to review of the remaining elements of the 2017-18 annual accounts and annual report work, the Audit Committee Non-Executive Director Chair advised that he was minded to recommend the accounts to the Trust Board for approval later that day, given that External Audit were able to issue an unqualified opinion on the accounts. However, the Audit Committee's position must be accompanied by a clear statement setting out the basis for that recommendation and clarifying what the Audit Committee would require to see going forward in terms of greater rigour; that statement would be prepared ahead of the extraordinary Trust Board meeting on 25 May 2018 which would now start at 4pm. The Audit Committee Non-Executive Director Chair voiced significant concern over the position the Audit Committee had found itself in at this meeting, and also recorded his concern at the issues raised by External Audit.

AC
CHAIR

More generally, although recognising the financial pressures facing the Trust the Audit Committee voiced concern over the level of prudence adopted by Trust management in putting together UHL's financial statements and financial forecast. It was agreed therefore that this issue would shortly be the subject of further review through UHL's governance mechanisms.

CFO

The remaining elements of the annual accounts and annual report work were then considered as per papers C1 and C2, and C4-C10 above, with comments (by exception) as follows:-

- (a) **paper C1 – Going Concern Statement 2018-19** – in response to a query from the Audit Committee Non-Executive Director Chair, the Chief Financial Officer advised that quarter 1 of 2018-19 would not see a significant cash squeeze, as the information in figure 10 did not account for CCG cash which was more evenly received through the year. He acknowledged that figure 7 did not provide an entirely useful comparison;
- (b) **paper C2 – draft statutory accounts 2017-18** – the Director of Operational Finance confirmed that the Trust Group Holdings Ltd accounts had been consolidated into the Trust's accounts. No new accounting standards had been adopted, and paper C2 made specific reference to the £12.5m VAT reclamation. In response to queries from the Audit Committee Non-Executive Director Chair, it was confirmed that any formatting issues could be corrected ahead of the final submission deadline of 29 May 2018. The Director of Operational Finance also clarified that there was no duplication in the going concern section, as the wording mirrored auditor wording;
- (c) **paper C5 – Letter of Representation** – External Audit noted the unusual number of issues highlighted in the letter, and made specific reference to the mention of the VAT aspects.
- (d) **paper C6 – Internal Audit Annual Report 2017-18 and Head of Internal Audit Opinion** – the Head of Internal Audit's opinion was that the overall adequacy and effectiveness of the Trust's framework of governance, risk management and control was "**generally satisfactory with some improvements required**". Although medium and high risk rated weaknesses had been identified in individual Internal Audit reports, these were not significant (when aggregated) to the system of internal control. Nor did any of the individual assignment reports have an overall classification of 'critical risk'. Ms C Bru, Internal Audit, considered that project and programme management issues needed addressing going forwards, and in response the Audit Committee Non-Executive Director Chair asked that Executive Directors review the scope for internal learning from UHL's delivery of largescale projects, and report accordingly to a future Audit Committee. Col (Ret'd) I Crowe Non-Executive Director requested that a review of the Emergency Floor phase 2 project also be included in the Internal Audit Plan for 2018-19;

CE

IA/
CFO

- (e) **paper C7 – draft Annual Governance Statement 2017-18** – this iteration reflected External Audit input, and no further comments on the document had been identified in External Audit’s ISA 260 audit highlights memorandum at paper C3;
- (f) **paper C8 – draft Annual Report 2017-18** – the Deputy Director of Communications and Engagement apologised for the short-notice circulation of the report on the evening of 24 May 2018, acknowledging that not all members had had time to read it in detail. The Audit Committee agreed to endorse the Annual Report 2017-18 in principle for recommended approval at the 25 May 2018 extraordinary Trust Board, with any further comments on it to be provided by the absolute finalisation date of 29 May 2018 and the final version to be submitted to the June 2018 Trust Board, and **ALL**
- (g) **paper C9 – draft Quality Account 2017-18** – the Director of Clinical Quality noted that this was the final iteration as also considered by the Quality and Outcomes Committee (QOC) on 24 May 2018. The stakeholder commentary was also included, and the QOC Non-Executive Director Chair welcomed both the Quality Account itself and External Audit’s unqualified opinion on it (paper C10a). The Audit Committee particularly reviewed and endorsed the ‘Statements of Director Responsibilities in respect to the Quality Account’ at appendix 1 of paper C9, noting that the Quality Account and that Statement would be presented to the June 2018 Trust Board for approval. **AC CHAIR**
- Recommended** – that (A) the draft 2017-18 annual accounts and accompanying documents at papers C1 – C8 inclusive be recommended for approval by the 25 May 2018 extraordinary Trust Board and signing of the appropriate certificates – a statement to be made at that extraordinary Trust Board meeting by the Audit Committee Non-Executive Director Chair setting out the basis of that recommendation, noting the significant issues raised by External Audit, and detailing the clear expectations of the Audit Committee going forward; **AC CHAIR**
- (B) although approved in principle as per (A) above, any further comments on the Annual Report 2017-18 (paper C8) be sent to the Deputy Director of Communications and Engagement by 29 May 2018, noting that the final iteration would be circulated as part of the June 2018 Trust Board Bulletin papers; **ALL**
- (C) the draft Quality Account 2017-18 (including Statement of Directors’ Responsibilities) be recommended for approval at the June 2018 Trust Board as per paper C9, and the External Audit opinion on the Trust’s Quality Account 2017-18 and Letter of Representation (paper C10) be approved; **AC CHAIR**
- (D) a review of the Emergency Floor phase 2 project be included in the Internal Audit Plan for 2018-19; **IA/ CFO**
- (E) a review the scope for internal learning from UHL’s delivery of largescale projects be undertaken, and reported accordingly to a future Audit Committee; **CE**
- (F) the question of the VAT reclaim be clarified and reported accordingly to the Audit Committee; **CFO**
- (G) a comprehensive assessment be undertaken of all aged debtors of 180 days or more, and reported to the Audit Committee in 2018 with appropriate recommendations; **CFO**
- (H) the depreciation policies to be applied in 2018-19 and beyond be reviewed and presented to the Audit Committee; **CFO**
- (I) a review be undertaken (through the Trust’s governance mechanisms) of the level of prudence adopted in putting together UHL’s financial statements and financial forecast, and **CFO**
- (J) the process leading up to this Audit Committee meeting in respect of the annual accounts work be reviewed, to avoid a future recurrence of the current position. **CFO**

RESOLVED ITEMS

Apologies for absence were received from Ms A Breadon, Head of Internal Audit, PwC. It was noted that Mr N Mohan, Local Counter-Fraud Specialist, PwC, had been stood down from the meeting as the only business now being covered related to the Annual Report and Annual Accounts 2017-18.

18/18 MINUTES

Resolved – that the Minutes of the Audit Committee meeting held on 9 March 2018 be confirmed as a correct record.

19/18 MATTERS ARISING REPORT

Resolved – that consideration of this report be deferred to the 6 July 2018 Audit Committee.

20/18 ITEMS FROM THE LOCAL COUNTER-FRAUD SPECIALIST

20/18/1 Counter-Fraud Annual Report 2017-18

Resolved – that the Counter-Fraud Annual Report 2017-18 be approved as per paper D.

IA
LCFS

21/18 ITEMS FROM INTERNAL AUDIT

21/18/1 Internal Audit Reviews

Resolved – that consideration of this report be deferred to the 6 July 2018 Audit Committee.

CCSO

21/18/2 Internal Audit Annual Plan 2018-19

Although formal approval of this plan was deferred until the July 2018 Audit Committee, the Director of Corporate and Legal Affairs advised members that – with the addition of a review of the Emergency Floor phase 2 – the Trust was now working to the proposed plan as set out in paper F.

Resolved – that consideration of this report be deferred to the 6 July 2018 Audit Committee.

CCSO

21/18/3 Alternative Sources of Assurance (for any key areas of risk not currently included in the 2018-19 Internal Audit programme)

Resolved – that consideration of this report be deferred to the 6 July 2018 Audit Committee.

CCSO

22/18 ITEMS FROM EXTERNAL AUDIT

22/18/1 External Audit Progress Report

Resolved – that consideration of this report be deferred to the 6 July 2018 Audit Committee.

CCSO

22/18/2 External Audit Annual Report Benchmarking

Resolved – that consideration of this report be deferred to the 6 July 2018 Audit Committee.

CCSO

23/18 FINANCE – STRATEGIC AND OPERATIONAL ISSUES

23/18/1 Discretionary Procurement Actions

Resolved – that consideration of this report be deferred to the 6 July 2018 Audit Committee.

CCSO

23/18/2 Review of Losses and Special Payments

Resolved – that consideration of this report be deferred to the 6 July 2018 Audit Committee.

CCSO

24/18 GOVERNANCE

24/18/1 Integrated Risk Management Report (including the draft 2018-19 Board Assurance Framework and UHL risk register)

	<u>Resolved</u> – that consideration of this report be deferred to the 6 July 2018 Audit Committee.	CCSM
24/18/2	<u>Progress Report on GDPR Compliance</u>	
	<u>Resolved</u> – that consideration of this report be deferred to the 6 July 2018 Audit Committee.	CCSO
24/18/3	<u>Data Protection and Security Requirements 2018-19</u>	
	<u>Resolved</u> – that consideration of this report be deferred to the 6 July 2018 Audit Committee.	CCSO
24/18/4	<u>UHL Counter-Fraud, Bribery and Corruption Policy</u>	
	<u>Resolved</u> – that consideration of this report be deferred to the 6 July 2018 Audit Committee.	CCSO
24/18/5	<u>Consolidated List of Outstanding Audit Recommendations</u>	
	<u>Resolved</u> – that consideration of this report be deferred to the 6 July 2018 Audit Committee.	CCSO
25/18	ASSURANCE GAINED FROM THE FOLLOWING COMMITTEES ON KEY RISKS/ISSUES OF THE TRUST	
25/18/1	<u>Quality and Outcomes Committee (QOC)</u>	
	<u>Resolved</u> – it be noted that the Minutes of the 22 February 2018, 29 March 2018 and 26 April 2018 QOCs had been circulated as papers Q1 – Q3.	
25/18/2	<u>People, Process and Performance Committee (PPPC)</u>	
	<u>Resolved</u> – it be noted that the Minutes of the 22 February 2018, 22 March 2018 and 26 April 2018 PPPCs had been circulated as papers R1 – R3.	
25/18/3	<u>Finance and Investment Committee (FIC)</u>	
	<u>Resolved</u> – it be noted that the Minutes of the 22 February 2018, 22 March 2018 and 26 April 2018 FICs had been circulated as papers S1 – S3.	
25/18/4	<u>Charitable Funds Committee (CFC)</u>	
	<u>Resolved</u> – it be noted that the Minutes of the 12 April 2018 Charitable Funds Committee had been circulated as paper T.	
26/18	ANY OTHER BUSINESS	
	There were no items of any other business.	
27/18	IDENTIFICATION OF ANY KEY ISSUES FOR THE TRUST BOARD	
	<u>Resolved</u> – that the Annual Report and Annual Accounts 2017-18 be recommended for Trust Board approval, as per Minute 16/18 above.	
28/18	CONFIDENTIAL ITEMS OF BUSINESS	
	<u>Resolved</u> – that consideration of this item be deferred to the 6 July 2018 Audit Committee.	CCSO
29/18	DATE OF NEXT MEETING	
	<u>Resolved</u> – that the next Audit Committee be held on Friday 6 July 2018 at 9am in the C J Bond Room, Clinical Education Centre, Leicester Royal Infirmary.	

The meeting closed at 1.40pm

Helen Stokes – Corporate and Committee Services Manager

Cumulative Record of Attendance (2018-19 to date):

Voting Members:

Name	Possible	Actual	% attendance	Name	Possible	Actual	% attendance
R Moore	1	1	100	A Johnson	1	1	100
I Crowe	1	1	100	M Traynor	1	1	100

Non-Voting Members:

Name	Possible	Actual	% attendance	Name	Possible	Actual	% attendance
N Sone	1	1	100				
P Traynor	1	1	100				
S Ward	1	1	100				