

Trust Board paper J

**UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST**

**REPORT BY TRUST BOARD COMMITTEE TO TRUST BOARD**

**DATE OF TRUST BOARD MEETING: 7 July 2011**

**COMMITTEE: Audit Committee**

**CHAIRMAN: Ms K Jenkins, Non-Executive Director**

**DATE OF COMMITTEE MEETING: 31 May 2011**

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

- draft statutory exchequer accounts (Minute 38/11/1 refers), and
- statement on internal control (Minute 38/11/4 refers).

Please note that the Audit Committee Annual Report 2010-11 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: 6 September 2011**

**Mrs K Jenkins – Non-Executive Director and Audit Committee Chair  
1 July 2011**

**UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST**  
**MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD ON**  
**TUESDAY 31 MAY 2011 AT 2PM 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 D Tracy – Non-Executive Director  
Ms J Wilson – Non-Executive Director

**In Attendance:**

Mrs F Coles – Assistant Director of Finance  
Mr M Lowe-Lauri – Chief Executive  
Mrs H Majeed – Trust Administrator  
Mr A Seddon – Director of Finance and Procurement  
Mr J Shuter – Deputy Director of Finance and Procurement  
Mr S Ward – Director of Corporate and Legal Affairs

Mr A Bostock – KPMG (the Trust's External Auditor)  
Ms K Gabri – KPMG (the Trust's External Auditor)

Mr H Arif – Chief Internal Auditor, East Midlands Internal Audit Services, (the Trust's existing Internal Auditor) (all except Minute 45/11/2)

Ms J Clarke – Local Counter Fraud Specialist (East Midlands Internal Audit Services) (from Minute 38/11 – Minute 44/11/2 inclusive)

Mr R Holmes – Head of Counter Fraud Services (East Midlands Internal Audit Services) (from Minute 38/11 – Minute 44/11/2 inclusive)

Mr A Mason – Deputy Head of Internal Audit, East Midlands Internal Audit Services (the Trust's existing Internal Auditor) (all except Minute 45/11/2)

Mr R Bacon – Lead Partner, PwC (the Trust's new Internal Auditor from 1 June 2011) (for Minute 45/11/2)

Ms A Breadon – Head of Internal Audit (the Trust's new Internal Auditor from 1 June 2011) (for Minute 45/11/2)

Ms J Watson – Senior Internal Audit Manager (the Trust's new Internal Auditor from 1 June 2011) (for Minute 45/11/2)

**RECOMMENDED ITEMS**

**ACTION**

**38/11 DRAFT STATUTORY ACCOUNTS 2010-11 AND ANNUAL REPORTS 2010-11**

**38/11/1 Draft Statutory Exchequer Accounts 2010-11**

The Director of Finance and Procurement presented paper B, including the annual accounts for the year ending 31 March 2011 (appendix 1 to the report refers) and the proposed Representation Letter from the Trust to the External Auditors (appendix 2 to the report refers). The Trust had reported an operational surplus of £1.013m and a technical deficit of £2.542m (due to impairment) in 2010-11.

The Trust had not met the administrative target relating to the Better Payment Practice Code except for the value of non-NHS invoices paid. However, the Director of Finance and Procurement advised that the Trust was aiming to achieve this target through better adherence to agency profile, invoice approval and catalogue payment terms. In response to a query, it was noted that there would be no adverse impact on the Trust for not meeting this target as it was not a statutory

target.

In discussion on this item, members:

- (i) queried what included 'reclassifications' – it was noted that it was movement from work in progress to asset classes on completion of a scheme;
- (ii) queried what encompassed 'non-current receivables revenue' – it was noted that this related to road traffic accident debts;
- (iii) queried the discrepancy in figures relating to property, plant and equipment on pages 16 and 41 – in response, the Assistant Director of Finance agreed to make the necessary changes to page 41 of the draft accounts;
- (iv) queried what 'establishment' related to in the operating expenses outlined in page 33 – it was noted that this related to 'postage', 'stationery', 'office equipment' costs;
- (v) also queried if any themes had been picked up due to the increase in the clinical negligence costs – the Director of Corporate and Legal Affairs confirmed that he was not aware of any material changes;
- (vi) noted that undershoot meant that cash levels had been increased;
- (vii) suggested that 'Egg PLC' be replaced with 'Egg Banking PLC' in page 58, and
- (viii) suggested that clarification be sought outside the meeting on the need for any additional management representations to be included within appendix 2 of paper B, as appropriate.

ADF

**Recommended – that (A) the draft statutory annual accounts 2010-11 (including the proposed Representation Letter also included as part of paper B) be endorsed and recommended onto the Trust Board for formal approval, and**

DFP/TA

**(B) the Assistant Director of Finance be requested to undertake the action detailed under point (iii) above.**

ADF

38/11/2 External Audit Draft Audit Memorandum and Verbal Opinion on the 2010-11 Statutory Accounts

Mr A Bostock, KPMG (the Trust's External Auditors) presented paper C, which detailed the draft Audit Memorandum and provided a verbal opinion on the 2010-11 statutory accounts, including the Trust's management response to the Audit Memorandum. As a result of KPMG's 2010-11 audit work, eight recommendations had been made to the Trust of which two were medium priority in the areas of fixed asset register and legal provisions and the rest of the recommendations were of low priority. Mr A Bostock notified his intention to issue an unqualified audit opinion on the Trust's 2010-11 accounts and statement on internal control.

The Committee Chairman queried on the impact of the Trust's annual report being made available to KPMG after 11 working days of the agreed deadline – in response, it was noted that this had delayed KPMG's review and subsequent feedback to the Trust. Responding to another query, it was noted that the annual report had been specifically reviewed by the Director of Finance and Procurement and the rest of the Executive Directors had been sent a copy.

In relation to the incorrectly classified income coding, the Assistant Director of Finance advised that the coding structure in relation to accounts preparation had been reviewed to ensure the accuracy of future disclosures. Presentational amendments had been suggested to the accounting policies. In response to a query on fixed asset verification, the Assistant Director of Finance advised that the figures relating to the percentage (75%) of assets verified in the paper were as of 31 March 2011. However, further to the April 2011 Audit Committee meeting and following sustained efforts by Divisions, there had been a 90.2% returns on asset verification.

**Recommended – that the contents of this report, and additional verbal information provided, be received and noted.**

38/11/3 Internal Audit Year End Report and Audit Opinions 2010-11

Mr A Mason, Deputy Head of Internal Audit presented paper D, which detailed the Head of Internal Audit Opinion Statement and noted that this expanded upon the interim opinion submitted to the previous Audit Committee meeting (Minute 30/11/1 of 12 April 2011 refers). Paper D also detailed the Internal Audit Annual Report for 2010-11.

In discussion on this item, members:

- (i) made note of the 'significant assurance' provided in respect of the Head of Internal Audit Opinion (section 2.1 of the report refers);
- (ii) noted that three reviews had been issued with a limited opinion or a split opinion in 2010-11, however none of these reviews had identified any high risk issues. These had been considered when forming the overall opinion (as stated in point (i) above), and
- (iii) noted that EMIAS performance had been conducted in compliance with Internal Audit standards.

The Deputy Head of Internal Audit expressed particular thanks to the Trust for working alongside himself and his colleagues. The Committee Chairman and the Director of Finance and Procurement thanked the Internal Auditors (EMIAS) for their work with the Trust.

**Recommended – that the Head of Internal Audit Opinion and the Internal Audit Annual Report 2010-11 be noted.**

38/11/4 Draft Statement on Internal Control 2010-11

The Director of Corporate and Legal Affairs presented paper E, which detailed the draft Statement on Internal Control, and had been amended slightly from that presented previously (Minute 33/11 of 12 April 2011 refers) – amendments now explained by the Director of Corporate and Legal Affairs.

The following amendments were suggested:-

- Page 2 – inclusion of the Chief Operating Officer/Chief Nurse's role as Deputy Chief Executive;
- Page 6 – inclusion of the Research and Development Committee;
- Page 7 – updated to include the Head of Internal Audit's final audit opinion of 'significant assurance', and
- Page 8 – updated to confirm that all internal audit reports bar three had provided 'significant assurance' and appropriate action was being taken to strengthen controls in the three areas identified.

Subject to inclusion of the above amendments to the draft Statement on Internal Control 2010-11, 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 Statement on Internal Control 2010-11 be endorsed and recommended onto the Trust Board for formal approval. DCLA/  
TA

38/11/5 Draft Audit Committee Annual Report 2010-11

The Director of Corporate and Legal Affairs presented paper F, which detailed the draft Audit Committee Annual Report for 2010-11, noting that, further to members' comments, it would be appended to the Committee's minutes when it is submitted to the Trust Board. DCLA

**Recommended** – that the Director of Corporate and Legal Affairs be requested to append the Audit Committee Annual Report 2010-11 to the minutes of the Audit Committee's minutes when it is submitted to the Trust Board in July 2011. DCLA/  
TA

**RESOLVED ITEMS** **ACTION**

39/11 **PRIVATE DISCUSSIONS WITH BOTH SETS OF AUDITORS**

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.

40/11 **APOLOGIES**

Apologies for absence were received from Mr I Reid, Non-Executive Director.

41/11 **MINUTES**

**Resolved** – that (A) the Minutes of the meeting held on 12 April 2011 (paper G refers) be confirmed as a correct record, and

(B) the contents of the associated Audit Committee action sheet arising from the same meeting (paper G1 refers) be received and noted.

42/11 **MATTERS ARISING FROM THE MINUTES**

The Committee Chairman confirmed that the Matters Arising report (paper H) highlighted the matters arising from the meeting held on 12 April 2011 and provided an update on any outstanding matters arising on the Audit Committee meetings held since 7 September 2010.

**Resolved** – that the matters arising report (paper H) be received and noted.

43/11 **MATTERS ARISING**

43/11/1 **Matters Arising from Local Counter Fraud Services/Internal Audit**

43/11/ **National Benchmarking Information on Counter Fraud Services/Internal Audit**

1.1 (Minute 60/10/1 of 7 September 2010)

The Local Counter Fraud Specialist presented paper I, a report on the NHS Protect benchmarking information on the results from National Qualitative Assessments. Appendix 1 of the paper highlighted the compound indicator or qualitative assessment ratings issued to all health bodies in England and Wales for 2006-07 to 2009-10. During this period, UHL had scored a level 3 for each of the years (2006-07, 2007-08, 2008-09 and 2009-10). The graph indicated that UHL had been in the upper 23% of health bodies, scoring either a level 3 or 4.

Responding to a query, it was noted that level 3 stood for 'exceptional performance'. The graph in appendix 2 of the paper highlighted that 63% of Acute Trusts scored a level 2 or lower rating in 2009-10 with 31% achieving either a level 3 or 4 rating.

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

43/11/  
1.2 On-going Fraud Investigations (Minute 31/11/2)

Ms J Clarke, Local Counter Fraud Specialist provided a verbal update on the on-going fraud investigations highlighting that there were currently 8 open cases mostly relating to alteration of sick notes and timesheet frauds.

In response to a query relating to salary over-payments, it was noted that a system had been set-up to alert the Local Counter Fraud Specialist as soon as an over-payment had happened. Fraud awareness training had been provided to the payroll staff. In discussion on the reasons for a salary-overpayment to occur even though an automated payroll system had been in place, the Committee Chairman requested that a report on the root causes for salary over-payments and the actions taken to rectify this issue be presented to the Audit Committee in September 2011.

LCFS

**Resolved – that (A) the verbal update be received and noted, and**

**(B) the Local Counter Fraud Specialist be requested to present a report at the Audit Committee in September 2011 on the root causes for salary over-payments and the actions taken to rectify this issue.**

LCFS/  
TA

43/11/  
1.3 Revised Audit Committee Handbook (Minute 61/10/1 of 7 September 2010)

The Deputy Head of Internal Audit presented paper J, a report with a summary of the main changes arising from the recent publication of the Audit Committee Handbook 2010. The handbook confirmed that the remit of the Audit Committee and the assurances it would be expected to receive had now greatly increased. The 2010 version looked to develop and improve the functioning of Audit Committees by providing guidance and best practice particularly in relation to the Assurance Framework.

Mr D Tracy, Non-Executive Director queried whether there was a need to revise the Audit Committee planned programme of work – in response, the Director of Corporate and Legal Affairs agreed to take this forward. Mr R Kilner, Non-Executive Director suggested that the training requirements for Audit Committee members be reviewed.

DCLA

DCLA

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

**(B) the Director of Corporate and Legal Affairs be requested to update the annual calendar of business for Audit Committee meetings in line with the changes arising from the Audit Committee Handbook 2010 and present it to**

DCLA/  
TA

the Audit Committee on 6 September 2011, and

**(C) the training requirements for Audit Committee members be reviewed, as appropriate.**

DCLA

43/11/  
1.4

Anonymous Report of the best CIP models used within other Trusts (Minute 77/10/2 of 16 November 2010)

The Chief Internal Auditor presented paper K, a report providing comparison of the Trust's internal control arrangements for delivery of CIP with other NHS organisations (across the client base of EMIAS). This report was based on a review of the Trust's CIP programme undertaken by KPMG in 2010. KPMG's original report assessed the Trust against three objectives (CIP identification, CIP implementation and assessing progress of CIPs) each of which was underpinned by a number of expectations.

The following five recommendations were suggested:-

- (a) for 2011-12, the Trust should accelerate its timeline and actions for business planning and CIP identification process;
- (b) engagement with Divisions to agree and produce a CIP framework;
- (c) Patient Level Information and Costing System (PLICS) Steering Group should provide regular progress updates to other Committees, as appropriate;
- (d) Divisions should develop detailed CIP models, and
- (e) consistency in year to date and forecast reporting.

The table on page 5 of paper K provided a RAG comparison of UHL's performance with other Trusts against each of the expectations indicated in KPMG's original report. The areas of good practice and the areas requiring improvement were outlined in section 2 of the paper.

Mr D Tracy, Non-Executive Director noted the anonymous nature of the report and queried whether (with agreement of Internal Auditors and the Trusts which were using the best CIP models) it would be possible to visit those Trusts for a further discussion on their work in relation to this – in response, the Chief Internal Auditor agreed to facilitate this.

IA

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

**(B) the existing Internal Auditors (EMIAS) be requested to facilitate visits between UHL and Trusts within the East Midlands region (across the client base of EMIAS) which were currently using the best CIP models.**

IA  
(EMIAS)

43/11/2

Report on completion of Internal Audit's outstanding actions referred to Trust Management (Minute 27/11/4)

Further to minute 27/11/4 of 12 April 2011, the Assistant Director of Finance presented paper L, confirming that the two outstanding Internal Audit's actions referred to Trust Management had been completed. In respect of the outstanding action relating to payroll expenses, it was noted that the expenses policy was now available via INsite (the Trust's intranet system). In relation to follow-up reviews, it was agreed that this would be discussed with the existing and new Internal Auditors through their handover process.

IA

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

**(B) the existing Internal Auditors (EMIAS) be requested to discuss the follow-**

IA

43/11/3 Internal Audit's Follow-up Review of Clinical Audit (Minute 30/11/1)

Mr D Tracy, Non-Executive Director/Chairman of the Governance and Risk Management Committee (GRMC) advised that the original Internal Audit report on review of clinical audit had been issued with 'limited assurance' and 34 action points (no high risk actions, 23 medium risks and 11 low risks). The follow-up review of clinical audit had been discussed at the April GRMC meeting highlighting that 16 of the medium risks and 9 of the low risks had been implemented. It was noted that, as with any follow-up review by Internal Audit, a revised audit opinion would not be provided, however, informal feedback by the assessors had suggested that the progress made would equate to 'significant assurance'.

Members were advised that approximately 800 internal clinical audits were undertaken per year in the Trust. At the GRMC meeting in May 2011, it was agreed that focus needed to be on the qualitative aspects of these audits. Therefore, the details of the audits would be included within the Clinical Audit Annual Report and quarterly reports from the Clinical Audit Committee would be presented to the GRMC, which would detail progress on delivering the clinical audit programme.

**Resolved – that the verbal information be received and noted.**

**44/10 ITEMS FROM THE LOCAL COUNTER FRAUD SPECIALIST**

44/11/1 Counter Fraud Annual Report 2010-11

Ms J Clarke, Local Counter Fraud Specialist presented paper M, which detailed a summary of the Annual Report of Counter Fraud Work for 2010-11 which had been written in accordance with the provisions of the Secretary of State Directions on fraud and corruption.

**Resolved – that the contents of this report be received and noted.**

44/11/2 Partial Qualitative Assessment Declaration 2011

Mr R Holmes, Head of Counter Fraud Services and Ms J Clarke, Local Counter Fraud Specialist presented paper N, partial counter fraud qualitative assessment declaration 2011 had also been submitted to NHS Protect. As the Trust had retained a level 3 score in 2009 and 2010, only a partial qualitative assessment submission was required in 2011. The results would be available by October/November 2011 and the Trust was likely to retain level 3 but was hopeful of achieving a level 4 score for 2011.

**Resolved – that the contents of this report be received and noted.**

**45/11 ITEMS FROM INTERNAL AUDIT**

45/11/1 Internal Audit Progress Report 2010-11

The Chief Internal Auditor presented paper O, which comprised an Internal Audit Progress Report for 2010-11. Appendix A detailed the progress of the individual reviews included within the 2010-11 plans with the exception of capital expenditure which was being finalised. The Trust had obtained 'significant' assurance for the CQC review and payroll expenditure reports.

**Resolved – that the contents of paper O, Internal Audit progress report for**

**2010-11 be received and noted.**

45/11/2 Draft Internal Audit Plan 2011-12

Mr R Bacon, Lead Partner, PwC introduced the members of his team. Ms A Breadon, Head of Internal Audit presented paper P which outlined the internal audit risk assessment and the proposed areas of internal audit focus for 2011-12. The plan had been formulated based on PwC's recent discussion with Directors within the Trust on areas of risk and expectations around assurance required from internal audit in the current year.

The internal audit plan and indicative timeline was outlined from page 9-11 of paper P. The progress made against the Trust's action plan in relation to the recent independent report on quality governance would be reviewed. A protocol (appendix A refers) had been agreed with management for tracking recommendations during the year. In discussion, the Committee Chairman suggested that the draft plan should be aligned with the new Strategic Risk Register/Board Assurance Framework (SRR/BAF) providing assurance of how the key risks were managed.

In response to a suggestion, Mr R Bacon agreed to re-consider the intensity/frequency of reviewing absence/sickness management systems. Mr R Kilner, Non-Executive Director advised that priorities to be achieved in quarter 2 – 2011-12 should be considered. It was suggested that the clinical audit review by the Trust's existing auditors should be taken as a starting point prior to assessing the Trust's arrangements for driving clinical effectiveness.

The Chief Executive advised that the Trust had a significant Cost Improvement Plan to deliver, the achievement of which was fundamental to the Trust's financial viability, FT application and programme of transformational change. It was important that the scope of this work was appropriately discussed. It was also essential that discussion be held with External Auditors to ensure that the respective work in this area was complementary. PwC representatives agreed to incorporate the suggestions and present a revised plan at the next Audit Committee meeting.

IA  
(PwC)

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

**(B) the new Internal Auditors (PwC) be requested to present the revised 2011-12 Internal Audit plan at the Audit Committee meeting in September 2011.**

IA  
(PwC)/  
TA

**46/11 ITEMS FROM EXTERNAL AUDIT**

46/11/1 External Audit 2011-12 Audit Plan

Mr A Bostock, Trust's External Auditor presented paper Q, a draft annual external audit plan and fee for 2011-12. The external audit fee (£273,125) for 2011-12 was in line with the scale fee, and represented a 5% reduction in the 2010-11 external audit fees. In 2011-12, external assurance on CIP review, governance review and quality and outcomes would be provided by the External Auditors. The value for money audit would be structured around financial resilience and prioritising resources within tighter budgets. External Audit would assess the Trust's preparedness for the demands quality governance placed in terms of ensuring quality as part of UHL's FT assessment.

Mr R Kilner, Non-Executive Director highlighted that appendix 1 was linked to the current Assurance Framework and would need to be re-visited in July 2011 to align with the new BAF.

EA

**Resolved** – that the (A) contents of paper Q be received and noted, and  
(B) External Audit be requested to ensure that Appendix 1 of paper Q was aligned with the new Board Assurance Framework (when it came in place).

EA

47/11 DISCRETIONARY PROCUREMENT ACTIONS

**Resolved** – the contents of paper R be received and noted.

48/11 ITEM FOR INFORMATION

48/11/1 Local Security Management Annual Report 2010-11

**Resolved** – that (A) the contents of paper S be received and noted, and  
(B) the Trust Administrator (on behalf of the Audit Committee) be requested to forward a query to the Local Security Management Specialist to find out if all members of staff have a lockable locker.

TA

49/11 GOVERNANCE AND RISK MANAGEMENT COMMITTEE (GRMC) AND FINANCE AND PERFORMANCE COMMITTEE (FPC)

49/11/1 Significant Risk and Control Findings identified by the GRMC and FPC

The GRMC Chairman highlighted that it was vital to rate CIPs in terms of risk to safety and quality and also noted the need to analyse the specific measurement against specific lines of CIP. The monitoring and reporting requirements needed to be identified. He advised that this matter had been discussed at the GRMC meeting on 26 May 2011 and the Director of Safety and Risk would be taking forward the actions.

**Resolved** – that the verbal update be received and noted.

49/11/2 Governance and Risk Management Committee

**Resolved** – that the Minutes of the Governance and Risk Management Committee meeting held on 28 April 2011 (paper T refers) be received and noted.

49/11/3 Finance and Performance Committee

**Resolved** – that the Minutes of the Finance and Performance Committee meeting held on 27 April 2011 (paper U refers) be received and noted.

50/11 ANY OTHER BUSINESS

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

51/11 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

- draft statutory exchequer accounts (Minute 38/11/1 above refers), and
- statement on internal control (Minute 38/11/4 above refers).

52/11 DATE OF NEXT MEETING

**Resolved** – that (A) the next meeting of the Audit Committee be held on Tuesday, 6 September 2011 from 2pm in Conference Rooms 1A and 1B, Gwendolen House, Leicester General Hospital, 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 1:30pm, with representatives from Internal and External Audit to attend from 1:45pm in the Members' Room, Gwendolen House, Leicester General Hospital.

The meeting closed at 4:00pm.

Hina Majeed,  
**Trust Administrator**

**University Hospitals of Leicester NHS Trust**

**Audit Committee**

**Annual Report 2010 / 11**

## **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 2010/11 financial year.

This is the seventh 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](mailto:stephen.ward@uhl-tr.nhs.uk) or at: -

Trust Headquarters  
Gwendolen House  
Gwendolen Road  
Leicester  
LE5 4QF

Kiran Jenkins  
Chairman, UHL Audit Committee  
May 2011

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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 Statement of Internal Control. UHL's Audit Committee has received reports on this matter in 2010/11.

## **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.

David Tracy served as Acting Committee Chairman from 1 December 2009 and remained in that post through to October 2010, resuming his role as a member of the Committee from that date. 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 2010/11, as did Richard Kilner. Jane Wilson served as a Committee member until June 2010.

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 a qualified Chartered Accountant and has over 15 years experience as a finance, risk, and audit professional in manufacturing, retail, and the financial services sectors. 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 who has held a number of senior posts in the construction industry and his work has involved significant development programmes in Asia, USA and Europe. Jane Wilson (who served as a member of the Committee until June 2010) has an honours degree in engineering and joined the Trust from the manufacturing sector, where she had worked for almost 25 years. Jane's other roles include Chair of Leicestershire and Rutland Probation Trust.

The Audit Committee met on five occasions during 2010/11. 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 2010/11.

Similarly, the Committee had access to both Internal and External Auditors at each meeting in 2010/11.

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 2010/11

During 2010/11 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 of the effectiveness of Internal Audit and External Audit, respectively : the Trust has appointed a new Internal Audit provider with effect from 1 June 2011;
- 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;
- review of data quality;
- the arrangements made by the Trust to prepare its financial statements under the International Financial Reporting Standards (IFRS);
- 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;

During 2010/11, 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).

At the request of the Committee, the Trust's Director of Human Resources attended several of its meetings to enable the Committee to obtain assurance on actions taken in relation to the Trust's payroll system.

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 2010/11 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 2011) the Trust's External Auditors have reported that, on receiving the Trust's management representations letter, an unqualified audit opinion on the Trust's 2010/11 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 2010/11 at its meeting on 2 June 2011. 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 Statement on Internal Control 2010/11 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 Statement on Internal Control 2010/11 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

2010/11 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 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 2011/12 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: 2011/12 and beyond**

In 2011/12, 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 2011/12:

- 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 2011/12, 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 2011