

**AUDIT & RISK MANAGEMENT COMMITTEE MEETING MINUTES****Venue:** Meeting held via WebEx**Date:** 4<sup>th</sup> June, 2020 15:30 – 17:00**Members Present:****In attendance:**

Ms M Perry, Non-Executive Director & Chair (MP)	Ms K Dhami, Director of Governance	(KD)
Mr H Kang, Non-Executive Director (HK)	Ms D McLannahan, Chief Finance Officer	(DM)
Mr M Hoare, Non-Executive Director (MH)	Mr T Lewis, Chief Executive	(TL)
Dr K Thomas, Non-Executive Director (KT)	Mr M Stocks, Grant Thornton	(MS)
Mr M Laverty, Non-Executive Director (ML)	Ms N Coombe, Grant Thornton	(NC)
Mrs L Writtle Assoc. Non-Executive Director (LW)	Mr M Gennard, RSM	(MG)
	Mr A Hussain, RSM	(AH)
	Mr C Higgins – Associate Director of Finance	(CH)
	Mrs R Biran, Assoc. Dir, Corporate Governance	(RBi)

<b>1. Introductions</b> [for the purpose of voice recording]	<b>Verbal</b>
The Committee members introduced themselves for the purpose of the meeting recording.	
<b>2. Welcome and apologies for absence</b>	<b>Verbal</b>
Apologies were received from Cllr W Zaffar, Sophie Coster, and David Baker.	
<b>3. Minutes of the previous meeting: 7<sup>th</sup> May 2020</b>	<b>AR (06/20) 001</b>
The minutes of the Audit & Risk Committee, meeting, held on 7 May 2020, were reviewed and <b>ACCEPTED</b> as an accurate record of the meeting.	
<b>4. Matters and actions arising from previous meetings</b>	<b>AR (06/20) 002</b>
An update of matters and actions arising from the previous meeting were provided as follows: <ul style="list-style-type: none"> <li>○ <i>Action Item: AR (10/19) 004 Investigate other high-risk areas such as the performance metrics for data quality improvements.</i> MP suggested the item be left on the agenda for a further update from Dave Baker at the next meeting.</li> <li>○ <i>Action Item: AR (05/20) 003 Conversations to take place between the Grant Thornton team, TL and the Trust finance team to resolve the timing of the Trust's finalised accounts. Agreed timings to be reported back to the Chair MP.</i> MP suggested discussing this on the next agenda item.</li> </ul>	

DISCUSSION ITEMS	
<b>5. Draft Annual General Accounts 2019/20</b>	<b>AR (06/20) 003</b>
<p>DM referred Committee members to the draft Board paper and identified the following key points:</p> <ul style="list-style-type: none"> <li>• The disclosure notes on Black Country Pathology Service performance in 2019/20 and the CCG PbR “rebate” have been moved to the Financial Narrative section of the Annual Report.</li> <li>• The Trust was asked to provide more evidence on its work to support the Going Concern basis of preparation and the Value for Money conclusion in the context of the £30m deficit draft plan submitted on the 5th March. Further information, papers and Board and FIC minutes will be provided to external auditors to support the going concern basis for the account and the value for money opinion for external audit.</li> <li>• The Trust has provided a paper setting out the reasons for the reclassification of the Multi Storey Car Park into Investment Properties to support the accounting treatment of an I&amp;E gain in the 2019/20 account. There is disagreement with the auditors, as to whether there is a change in use based on examples of change of use being an operating lease in IAS40. DM will continue to work through the issue with audit colleagues.</li> <li>• Continuing to provide regular updates to external audit colleagues regarding the valuation of Property, Plant and Equipment in the context of COVID-19 and the impact on valuation indices. This impacts all NHS Trusts and the private sector and will possibly need to be a material uncertainty disclosure in relation to that valuation in the context of COVID-19.</li> <li>• Limited Scope on stocktake is an issue that colleagues are experiencing in other organisations but it is unlikely to be an issue for the Trust, as stocktakes were performed for high value areas at the year end.</li> <li>• NHSI/E has not confirmed that the 2019/2020 Public Dividend Capital (PDC) waive on Midland Met UH construction costs is correct. DM will continue to follow up with NHSI/E and update the committee.</li> </ul> <p>MS (Grant Thornton) stated that the plans put together by the Trust for the Going Concern indicate that it will have a deficit at end of the financial year. This causes problems in terms of Value for Money and raises concerns as to the financial future of the Trust. MS stated that it is recognised the plan was put together at a particular point in time and therefore Grant Thornton has agreed for the Trust to come back with a revised plan that articulates the likely outcome for the Trust. The expectation is that the Trust will move out of deficit otherwise the Trust will be unable in theory to declare a positive Going Concern or Value for Money position. These are quite important issues to resolve because it changes the tone and feel in terms of the audit report on the Trust.</p> <p>MS stated that a lot of valuers are including material uncertainty paragraphs in their valuation of property due to the difficulty in valuing a property in the COVID-19 environment. The Trust can include an in-house disclosure in their report stating that the valuation of the property has been</p>	

difficult and may not be accurate due to the impact of COVID-19. Most valuers have included a similar statement for most organisations.

MS expressed his concern regarding the Trust's difficulty in obtaining approval from the NHSI/E in waiving the PDC cost. Without surety from the NHSI/E the Trust will move to a financial deficit which has implications for the drawdown of the Provider Sustainability Fund (PSF).

DM stated that the Trust has agreement in writing from DHSC, that they will provide funding to cover the PDC charge in 2019/20. Currently, the Trust has waived the PDC charge, however if the DHSC says the PDC charge cannot be waived, then the PDC charge can be raised in the accounts and accrued for with an equivalent income sum, thereby not impacting on the bottom line position of the Trust.

MS queried whether the Car Parks should be classified as investment properties or continue to be clusters of ordinary property. He stated that the accounting standard classifies investment properties as those held for the purpose of income generation and ensuring maximum profit. MS stated that it is difficult to classify the Car Parks as an investment property due:

- The ISA states that you can only transfer a "normal" property into an investment property upon evidence of change of use. There has not been a real change in use, as the property remains a car park used mainly for the purpose of patients arriving at the hospital for patient care.
- No evidence that the Trust is generating as much income as possible from the Car Parks due to restrictions on parking fees. Additionally, if there is a reduction in revenue or a significant increase in costs for Q-Park, they can ask the Trust for a reduction in the amount they pay.

MS stated that he was unable to make a decision on the classification of the Car Parks and has agreed that the Trust, and he, will write papers setting out the reasons for the Car Parks being classified as investment properties. A partner panel within Grant Thornton will review the papers and provide a Grant Thornton view as to whether the Car Parks could be classified as investment properties.

MP queried whether it could be argued that the Car Parks have always been held for the purposes of income generation. MS stated that if the Car Parks were truly for investment purposes then prices would reflect the National Car Park (NCP) market (£24 per day). The Trust is unable to charge NCP market fees as there is a social purpose to having the Car Parks and restricting the prices.

ML disagreed that investments do not always have to generate a commercial return as there are lots of investments have an ethical component such as pension funds.

It was queried whether the Trust would meet its control total and reporting deadlines if the Car Parks are not approved as investment properties.

DM assured the Committee that the Trust will meet the control total and can make the

adjustments in parallel to ensure deadlines are met.

MS added that quite often investment properties are held for capital appreciation and not just for income generation which is another argument to get the best commercial return.

**Action:** DM to follow up with the NHSI/E regarding the waiving of the 2019/2020 Public Dividend Capital (PDC) on Midland Met UH construction costs and provide an update to the Committee.

**Action:** DM to provide the Trust Committee with revised provisions in the event the Car Parks are not considered investment properties to ensure the Control Total and reporting deadlines are met.

#### 6. Draft Annual Governance Statement

AR (06/20) 004

The Annual Governance Statement was taken as read.

#### 7. Audit Progress Report and Sector Update

AR (06/20) 005

MS stated that the audit was progressing well and being done in a constructive manner with two things of concern:

- Investigating the difference in balances between the Trust's account balance compared to other bodies accounts.
- Difference in valuations from the previous valuer on 31 March 2019 and the new valuer on 1 April 2019.

DM explained that the previous valuer's process methodology had known errors and the new valuer had a more accurate methodology. DM to work with Grant Thornton regarding the valuation discrepancy.

**Action:** DM to work with Grant Thornton regarding the valuation discrepancy.

#### 8. Informing the Auditor's Risk Assessment

AR (06/20) 006

NC thanked DM and CH for providing a comprehensive report. The report is an auditing standard requirement for GT so that there is a two-way dialogue between the Trust over matters related to Fraud, Laws and regulations, Going Concern, Related Parties and Accounting Estimates and identifying how the Trust goes about managing, monitoring and mitigating risks.

MG raised the issue of the seven-day payment in the COVID-19 environment in relation to fraudulent activity. DM assured the Committee that she was not aware of any fraudulent incidents over the past couple of months and the Accounts Payable team have a vigilant process in relation to invoices without purchase orders.

CH added that he was very satisfied with the usual controls in place have been enhanced particularly around Personal Protective Equipment (PPE) where payment is requested upfront in the COVID-19 response.

#### 9. Internal Audit Progress Report

AR (06/20) 007

MG reported that executive summaries and action plans for the three audit reports had been

finalised, which completes the 2019/2020 Audit Plan. Actions from previous audit reports continue to be monitored and 33 management actions remain outstanding. MG reported that Paul Stanaway, responsible owner of the financial management review, had requested the reopening of several actions to allow him to add additional information. It is unclear as to how many actions are outstanding as the system may not have been updated. MG will continue to work with executives and provide an update to the Committee. DM informed the Committee that she had written to her department heads regarding the outstanding actions and the real position maybe better than the system shows.

MG stated that that the Annual Governance Statement is aligned with the sentiment and spirit of the internal audit progress report.

ML queried progress on developing a plan to ensure that the mandatory assertions associated with the Data Security standards are met as highlighted in the Data Security Toolkit Review.

KD stated that actions were being implemented and significant improvements have been made to enable compliance with the mandatory assertions by September 2020.

**Action:** Regular updates regarding progress on meeting the mandatory assertions associated with the Data Security Toolkit Review to be a standing Agenda items at future Committee meetings.

#### 10. Internal Audit Strategy 2019-2022 (incl. Internal Audit Plan)

AR (06/20) 008

AH reported that the Internal Audit Annual Plan 2020/2021 covers six areas that will continue to be monitored.

MG added that the Internal Audit Plan needs to remain flexible given the level of uncertainty surrounding the COVID-19 pandemic. It was agreed that any urgent decisions required between Audit Committee meetings will be discussed with MP and KD on behalf of the Committee.

### OTHER MATTERS

#### 11. Governance Scorecard

AR (06/20) 009

DM reported that the COVID-19 related Provider to Provider guidance has been positive as it requires settlement of all historic debts which results in a cash and I&E upside position for the Trust.

The new Single Tender Waiver (STW) process has improved the Trust's opportunity to challenge and ensure there is a genuine reason for requesting a STW. Improvements to contracting and tendering will focus on IT and Estates to ensure best value for money and follow due procurement processes. DM was not yet assured that there was sufficient challenge of STWs which she would address with the procurement team.

DM stated that she was satisfied with the more individual approach to Salary Overpayments and maintaining strict processes regarding repayments, but that further work was still required, particularly in relation to Surgical Services and the number of overpayments.

It was encouraging that Salary Overpayments in 2019/20 averaged eight per month, which is a significant reduction of the 2018-19 average of 15 per month.

**12. Legal Services Report**

**AR (06/20) 010**

KD reported confidence in being able to defend claims due to guidelines, protocols, staff training, competence assessment and induction processes being followed and documented.

LW queried whether staff training was mandatory regarding Employer and Public Liability claims. KD replied that Induction checklists are completed at a local area level, however not all instances of non-compliance are noted by managers. A system has been purchased that will assist with understanding which staff have completed training and been tested for their understanding of policies.

**13. Committee effectiveness**

**Verbal**

The Committee congratulated MP on chairing the meeting.  
 MG commented that from an environmental perspective, there should be a mixture of face-to-face and electronic Board meetings in the future.  
 The Committee thanked MP for chairing very successful Audit Committee meetings over the past years and stated that she will be missed once she stands down as Chair.  
 MP stated that she was stepping down due to her full-time job and would not have been able to Chair all the meetings if they had been face-to-face.

**8. Matters to raise to the Trust Board**

**Verbal**

MP suggested the following items be raised:

- Financial Statements and Annual Report available for sign-off at next meeting.
- Data Security Toolkit Review.

**9. Any other business**

**Verbal**

- No other business was discussed.

**Details of next meetings:**

- Thursday, 2<sup>nd</sup> July 2020 from 15:30 to 17:00, remotely via WebEx Meetings.

Signed .....  
 Print .....  
 Date .....