

AUDIT & RISK MANAGEMENT COMMITTEE MEETING MINUTES

Venue: Meeting held via WebEx

Date: 22nd June, 2020 17:15 – 18:15

Members Present:

In attendance:

Marie Perry –Non-Executive Director/Chair	(MP)	Ms D McLannahan, Chief Finance Officer	(DM)
Cllr W Zaffar –Non-Executive Director	(WZ)	Mr D Carruthers – Acting Chief Executive	(DC)
Mr H Kang –Non-Executive Director	(HK)	Mr D Daker – Director of Partnership & Innovation	(DD)
Mr M Hoare –Non-Executive Director (joined 17.20)	(MH)	Miss K Dhami– Director of Governance	(KD)
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 – Associate Non-Executive Director	(LW)	Mr M Gennard – RSM	(MG)
Mr S Samuda - Chairman	(SS)	Mr A Hussain – RSM	(AH)
		Mr B Vaughan - RSM	(BV)
		Mr C Higgins – Associate Director of Finance	(CH)
		Mrs R Biran – Associate Director of Corporate Governance	(RB)

1. Introductions [for the purpose of voice recording]	Verbal
The Committee members introduced themselves for the purpose of the meeting recording.	
2. Welcome and apologies for absence	Verbal
An apology was received from Mr Toby Lewis, Chief Executive Officer.	
3. Minutes of the previous meeting: 4th June 2020	AR (06/20) 001
References to MG in Sections 8 and 9 should be attributed to AH.	
4. Matters and actions arising from previous meetings	AR (06/20) 002
<p>An update of matters and actions arising from the previous meeting were provided as follows:</p> <ul style="list-style-type: none"> ○ <i>Action Item: AR (10/19) 004 Investigate other high-risk areas such as the performance metrics for data quality improvements.</i> <p>DB updated the Committee on four areas of data quality:</p> <ul style="list-style-type: none"> ● Integrated Quality Performance Report (IQPR) – a lot of work has been undertaken to ensure the data quality kitemark assurance process is robust. ● Data Quality Dashboard – work continues to be undertaken to resolve 1,000 outstanding issues. ● Unity Electronic Patient Record – continuing to experience data quality issues 	

most significantly around unacknowledged results for imaging.

- Historic list of issues – need to revisit the list to establish what issues remain unresolved. Many of the issues for Referral to Treatments (RTT) have been resolved but need to keep checking.

Need to consider the importance of each category of issues as to the level of risk and decide which issues are the key ones to fix first.

The rewrite of the data quality policy is almost complete.

The Information Governance Working Group has been reformed to move all categories forward.

Remain as a standing agenda item.

- *Action Item: AR (05/20) 003 Conversations to take place between the MS [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*
Update to be provided in Agenda Item 6.
- *Action Item: AR (06/20) 003 Follow up with the NHSI/E regarding the waiving of the 2019/2020 Public Dividend Capital (PDC) on Midland Met UH construction costs*
Update to be provided in Agenda Item 5.
- *Action Item: AR (06/20) 003 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.*
Update to be provided in Agenda Item 5.
- *Action Item: AR (06/20) 005 Work with Grant Thornton regarding the valuation discrepancy.*
Update to be provided in Agenda Item 5.

4.1 Update on Data Quality Improvements

Verbal DB

KD informed the Committee that a lot of work had been completed to meet the revised Data Security Toolkit submission deadline of end September 2020. All trusts have been given an extension due to the impact of the COVID-19 pandemic. The good news is that Information Governance training has been completed by 93% of staff, with a target of 95% completion. A targeted approach is underway to ensure those who are currently non-compliant complete the training.

Mike Hoare joined the meeting.

DISCUSSION ITEMS

5. 2019/20 Financial Statements

AR (06/20) 003

DM highlighted changes since the last meeting:

- The Trust has provided more evidence on its work to support the Going Concern basis of preparation and the value for money (VFM) conclusion in the context of the £30m deficit draft plan submitted on the 5th March. This evidence has been reviewed and accepted by the Auditors and this is reflected in their report.
- The Trust accepted Grant Thornton's final decision that it could not hold the multi storey car parks as an investment property. The Trust reversed this transaction in the accounts and made a corresponding adjustment to compensate by removing a provision for ongoing VAT issues. This is an important point as it was a prudent provision and Grant Thornton's review of the evidence to support this allowed the provision to be released without exposing the trust to undue financial risk.

- There is an emphasis of matter disclosure in relation to the valuation of Property, Plant and Equipment in the context of COVID-19 and the impact on valuation indices. This affects all NHS Trusts as well as the private sector.
- NHSI/E has not provided confirmation that the 2019/2020 PDC waive on Midland Met UH construction costs is the correct decision. The Trust is continuing to seek clarification and the Committee will be updated once a response is received. If the NHSI/E informs us that the waive is incorrect and they will pay the PDC, and income would be received, therefore it wouldn't materially impact on the accounts.

The Committee formally adopted the 2019/20 financial statements of Sandwell and West Birmingham NHS Trust.

6. Audit Findings Report

AR (06/20) 004

MS informed the Board that the Audit is almost complete with only a few items requiring finalisation. The following points were raised:

- COVID-19 pandemic has had limited impact apart from increasing the time to complete the audit due to everyone working remotely.
- Material Uncertainty impact on the Trust is to draw attention to the audit report including an Emphasis of Matter paragraph that highlights the land and buildings valuation material uncertainty disclosures in the financial statements, due to Covid-19.
- Disagreement with the Trust's decision to reclassify its car parks as investment properties, as already mentioned in Agenda Item 5.
- Significant differences on the agreement of balances exercise with a disputed debt of £2.6m with Sandwell CCG.
- The Trust has an old NHS debt of £0.9m and it is unclear whether this is collectable.
- The revaluation of the Trust's estate on 1 April 2019 by a new valuer shows a material difference of £12m by the previous valuer on 31 March 2019. Both valuers were challenged on their valuation methodology and advice was also sought from Grant Thornton's valuer. It was concluded that no prior period adjustment is required as all three valuers had a different estimation. As such there is a difference in estimation rather than an error.
- The Trust transferred 3 assets (£3.122m) from Assets Under Construction to property but has not had these revalued. We also noted that the valuer had not been notified of £10m of additions. The Trust is liaising with the valuer to determine what the impact to the valuation would have been, had they been aware of the above property transfers and additions.
- The Trust has recognised £3m of provision reversal in relation to VAT recovery claims, however it is uncertain as to whether the Trust will be able to reclaim £1m of this VAT balance and provisions are now considerably reduced.

HK queried whether the difference in valuation was related to a particular asset. MS replied that there were differences of views on valuation related to obsolescence of the Treatment Centre and how long the asset will last. It was a fundamental difference of opinion between valuers with both interpretations being valid.

HK asked what the key change in rationale was, for claiming VAT. MS referred HK to CH and DM to explain the three items. DM replied that there was no fundamental change for the long-term VAT issue. DM said the key reason for reversing it was the moving bottom line due to the car park investment property reversal and to compensate the impact of the investment property.

- Value for Money – MS stated that the materiality levels did not require updating and no new

VFM risks were identified in relation to COVID-19.

NC provided extensive detail on the Audit Report:

- The snapshot of outstanding matters on page 9 of the Audit Report is colour coded to indicate whether items will result in a material adjustment to the financial statement.
- Page 10 shows a slight change in levels of materiality due to the planning materiality in the draft set of accounts was based on 2018/2019 operating expenses whereas equivalent value in the draft accounts for 2019/20 is higher.
- Trivial Matters threshold is set at £300,000.
- Findings against Significant Risk on Page 11 focussed on Going Concern because the Trust has an underlying deficit, which is a sector-wide issue. There is a public sector override that states that an organisation must always prepare its accounts on a Going Concern basis. The focus is on looking ahead for the next 12 months to see if the Trust might be in a cash shortfall position and whether it will need to seek support. The Trust's submission to NHSI in March was used, however this does not represent the most likely scenario in terms of cashflow because it would usually be superseded by a further submission in April. The April plan was not required due to the COVID-19 pandemic. Additionally, in response to the COVID-19 pandemic, the Department of Health has guaranteed that the Trust's expenditure will be matched with income from commissioners up to 31 October 2020. Grant Thornton is happy there is no material uncertainty in terms of Going Concern, however a revised cashflow has been requested to confirm no shortfall is anticipated.
- Page 13 lists the significant risks related to COVID-19 focussing on logistical issues in relation to working remotely.
- Risk of revenue being recognised incorrectly - The Trust's revenue has two sources: patient income and non-patient income. Grant Thornton identified that revenue streams of the Trust that are principally derived from contracts that are agreed in advance at a fixed price had variations considered to be a significant risk. Appendix F sets out differences that have been identified which Grant Thornton have to be reported to the NAO regardless of whether the Trust has treated them correctly. They are reported in Appendix F for transparency and completeness.
- Risk of management override of controls – this is to assure there is nothing out of the ordinary happening in the background. Estimates and judgements by management are reviewed, hence the large focus on land and building valuation. There is also a focus on journals because this is how things can be moved around in the account. The Trust uses Oracle Fusion and Grant Thornton's IT audit colleagues identified some issues in the scheme of delegation conflict of interests. The main issues were associated with the Associate Director of Finance having two levels of user access; one in an administrative role and the other having access to move things around. Every journal posted by the Associate Director of Finance was checked for validity with the appropriate evidence to back it up, and all postings were deemed legitimate. There was a lack of control in the first part of the 2019/2020 financial year with the authorisation process for journals not being adopted until November 2019.
- Carpark as investment property – the Audit report provides detail as to the reason why the treating the car park as an investment property was deemed inappropriate. Grant Thornton has audited the reversal and is happy the relevant adjustments have been made.
- Valuation of land and buildings – Awaiting confirmation from the valuer as to why the land values over particular assets have not changed in the last year. It is recommended that the Trust undertakes its own analysis when it receives the valuers report to check for any discrepancies and not to take valuers word as read.
- International Financial Reporting Standard (IFRS) Leases – initially planned to apply from 1

April 2020 this year but because of the COVID-19 pandemic, it has been pushed back to 2021. The disclosure has been audited and satisfied with that is in the accounts.

- VAT liability from 1819 (Midland Met prepayment) – should no longer be treated as a contingent liability – this was appropriate treatment.
- PFI models – A comparison is made of Grant Thornton’s model and the Trust’s model compare outputs from both models again based on estimates. There is a difference of £1.3 million in the balance sheet liability which is the same amount as last year. The consistency in difference provides reassurance of accuracy and there is no adjustment required.
- Other communication requirements – this is a catchall for everything else and there is nothing significant.
- Remuneration report and the staff report – awaiting additional information on a couple of issues.
- Annual Governance Statement (AGS) – all issues have been addressed in the updated AGS.
- MS informed the committee that there was nothing to flag regarding the Value for Money (VFM) conclusion, however the MMH build will need to be monitored over the next two years.
- Financial Sustainability – The 2019/2020 financial performance is strong with an underlying deficit which required the FRF, PSF and funding from NHSI to break even. The Deficit Plan has been discussed in detail with DM as to how the Trust would get back to break-even. It is important that the Trust refocuses on the significant Cost Improvement Plan (CIP) when the COVID-19 pandemic is over. MS advised that as non-Executive Directors, there is a level of risk, however Grant Thornton is happy to give an unqualified value for money conclusion.
- MS thanked the Finance Team for all their support and mentioned DM and CH in particular.
- MS confirmed MH’s query that declaring a surplus of £46,000 is reliant on the £6 million of uncertainty going the way the Trust would like it to go.
- MS also confirmed MH’s query that if anything in the £6 million of uncertainty does not go the way the Trust has assumed, then the £46,000 will turn into a deficit very quickly if it could not be mitigated by the Trust.
- MP sought clarification regarding the next steps.
- DM informed the Committee that everything needs to be submitted by midday on Thursday, 25 June 2020. There are no changes to the accounts anticipated, but there will be minor changes to the Audit Findings Report (AFR) that have been discussed at today’s meeting which include confirmation from the valuers regarding the land values and confirmation from the NHSI/E regarding the PDC issue. The next few days will require signing of all the final statements and putting it all together with the Annual Report submission on Thursday morning. The Committee needs to agree that any further changes to the AFR need to be discussed with MP and final version of the AFR will be shared with the Committee at a later date.
- MP sought confirmation from Committee members as to whether they were happy for DM to go through any further amendments with MP prior to submission.
- MH queried whether this would include any changes that would place the Trust in deficit and sought clarification of the consequence of a deficit position. DM stated that there would be no impact of the PDC. The uncertainties that have been highlighted by MS and NC will be resolved during 2020/2021 otherwise the financial consequences of there not being a resolution will be managed by the Trust. There are no proposed changes to 2019/2020 financial figures.
- MH sought clarification regarding the NHSI/E deciding that the Trust will be compensated for the PDC. DM said that if the dividend charge is not waived and the NHSI/E says they will provide income for the PDC fee, then the dividend charge will be reinstated and approve £700,000 of income. DM stated there will be no change to this year’s accounts.

- MP thanked everyone for their effort in completing the AFR during particularly difficult circumstances in trying to do everything remotely. MP thanked the Finance Team for the huge amount of work in preparing the statements and also thanked the Trust’s audit colleagues who had a difficult time completing the audit without meeting anyone face-to-face.
- DM also thanked the Grand Thornton colleagues for the “professional sparring sessions” on value for money which she found professionally challenging but also very useful. DM said that she really appreciated the professional challenge and thanked them for that as well as their hard work. DM made specific mention of CH and his team and thanked them for their hard work. DM mentioned that CH’s team was particularly hard hit by COVID-19 which resulted in staff being on sick leave or working through whilst they were unwell.

It was noted that the Committee wished to record its appreciation for the hard work of both the Finance Team and Grant Thornton colleagues for getting through audit during particularly difficult circumstances.

MS and the Audit Committee thanked MP for spending time to see the Audit through to conclusion.

7. Counter Fraud Annual Report

AR (06/20) 005

The report was taken as read. BV requested that the Trust consider the following two questions:

- Is the Audit Committee content there is a strong anti-fraud culture within the organisation and the tone is set from the top?
- Is the Audit Committee satisfied that there an effective fraud risk management programme in place to identify and manage the risk of fraud?

The Committee agreed that the Trust’s counter fraud arrangements are particularly robust and quite a lot of awareness activity occurs across the organisation to ensure that remains the case.

DM stated that it was worth noting that a specific piece of work around fraud during COVID-19 pandemic, which BV is working on in the relevant departments of Finance, will give further assurance that the Trust isn’t exposed to any undue risk.

The Counter Fraud Annual Report was noted.

8. Counter Fraud Report Workplan 2020/2022

AR (06/20) 006

BV detailed how the Local Counter Fraud Specialist (LCFS) Workplan was structured to address the key standards of the NHS Counter Fraud Authority. The LCFS workplan is a risk-based work plan centred on 2019/20 work and any risks raised in the NHS Protect Engagement Meeting.

BV highlighted three areas of risk that have been identified as requiring additional work:

- Declarations of Interest
- Gifts and Hospitality
- Bank and Overtime TOIL

The COVID-19 pandemic has identified specific areas of risk that the LCFS will raise with the Trust to ensure enough control mechanisms are in place and produce a report for the Audit committee to consider.

MP queried the risk of cyber fraud and cyber security. BV stated that cyber security is always a risk and is addressed by the NHS as well as internally by the Trust’s IT team. The LCFS will continue to raise any cyber fraud threats it becomes aware of and will disseminate these across the Trust.

The Counter Fraud Report Workplan was noted.

OTHER MATTERS

9. Committee Effectiveness

Verbal

Not discussed.

10. Matters to raise to the Trust Board

No matters were raised.

11. Any other business

Verbal

No other business was discussed.

Details of next meetings:

- Thursday, 5th November 2020 from 15:30 to 17:00, remotely via WebEx Meetings or City Hospital Hayward Room.

Signed

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Date