

AUDIT & RISK MANAGEMENT COMMITTEE – MINUTES

Venue: Meeting held via WebEx

Date: 24th June 2021, 15:00-16:00

Members:

L Writtle	(LW)	Non-Executive Director (Chair)
M Hoare	(MH)	Non-Executive Director
K Thomas	(KT)	Non-Executive Director
M Laverty	(ML)	Non-Executive Director
Harjinder Kang	(HK)	Non-Executive Director

In Attendance:

M Stocks	(MS)	Grant Thornton
Z Francis	(ZF)	Grant Thornton
M Gennard	(MG)	RSM
A Hussain	(AH)	RSM
S Sheppard	(SS)	Director of Operational Finance
D Baker	(DB)	Director of Partnerships & Innovation
K Dhani	(KD)	Director of Governance
D McLannahan	(DMc)	Chief Finance Officer
Susan Rudd	(SR)	Assoc. Director of Corporate Governance

Apologies:

W Zaffar	(WZ)	Non-Executive Director
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Minutes	Reference
1. Introductions	Verbal
The Chair welcomed Committee members to the meeting. Committee members provided an introduction for the purpose of the meeting recording.	
2. Welcome and apologies for absence	Verbal
Apologies were received from Cllr Waseem Zaffar.	
3. Minutes of the previous meeting held on 6th May 2021	AR (06/21) 001
The minutes of the A&RM meeting held on 6 th May 2021 were not reviewed because of time considerations. LW requested that Committee members send any comments to her and KD by the end of the week.	
4. Matters arising and update on previous meeting actions	AR (06/21) 002
The action log was not discussed.	
DISCUSSION ITEMS	
5. Annual Report including the 2020/21 Financial Statements and Annual	AR (06/21) 003

Governance Statement	
<p>DMc referred Committee members to an updated version of the draft Annual Report which the Board had considered earlier in June 2021. The Annual Governance Statement had been added. DMC thanked Grant Thornton colleagues for their assistance in its preparation.</p> <p>Whilst there was still some work to be done, DMC highlighted that the only further changes to the accounts would be the removal of some minor amendments to disclosures.</p> <p>LW noted that Committee members had previously seen the main body of the Annual Report. No further comments were made.</p>	
5.1 Audit Findings Report: Grant Thornton	AR (06/21) 004
<p>MS presented the Audit Findings report on behalf of Grant Thornton (GT). The following points were highlighted:</p> <p><u>Overview:</u></p> <p>MS referred Committee members to the Audit Findings Report for the Financial Year to March 2021. It was reported there were £4.6m of errors approx. within the financial statements which would reduce the Trust's retained deficit by this amount.</p> <p>There were a number of issues including a level of old NHS debt which was not considered recoverable. Payables (amount owed to others) had been reviewed but MS commented that visibility of goods received and not invoiced had been difficult. A number of accruals had been found amounting to around £650k which were very old and therefore the level of liability was uncertain.</p> <p><u>Depreciation:</u></p> <p>Depreciation had been reviewed in detail. If the Trust depreciated on the basis of the valuer's assessment, then the depreciation would increase by around £1m per year. Therefore, the method would be discussed with the Trust's financial team. Around £5.5m would be moved from the Revaluation reserve to the Income and Expenditure reserve.</p> <p><u>Annual Leave:</u></p> <p>Obtaining the data relating to the annual leave accrual had been a struggle because of delays in leave taking caused by COVID-19. MS reported this could extrapolate to a £3.3m error. Whether this amount was correct was uncertain and auditors would work with the finance team to reduce the figure to a more reasonable level.</p> <p>MH queried whether the numbers had been based on a sampling approach. MS confirmed this had indeed been done with a sample number of staff. It was hoped that when the data became available the extrapolated amount would be significantly reduced.</p> <p>DMc reported that one of the areas of difference of opinion was that the Trust had included contractual obligations, but GT had excluded these.</p> <p><u>Payables:</u></p> <p>MS reported that GT had to alter its plan during the audit. One of the changed focus areas had been on the existence and the accuracy of payables. The NAO had flagged early on in the audit process that they were concerned about the level of payables observed across the whole of the NHS and therefore, GT had responded accordingly with increased testing in this area.</p> <p><u>IT:</u></p> <p>The IT team had found that the Trust's finance team had super user access which was a concern</p>	

(potential manipulation of financial information) therefore, journal testing had focused on this area. GT had identified some instances where people could self-authorise journals which changed the risk profile. Work to address this was ongoing.

Weaknesses:

A couple of significant weaknesses had been identified in relation to the financial sustainability of the Trust and its response to CQC expectations. Low satisfaction rates amongst patients and staff and the high mortality rate were additional concerns.

There was some testing still to do in terms of the finances. Delegated authority from the A&RM Committee Chair would be required.

Management override and control:

This issue related to management's use of estimates and journals. All journals had been reviewed. Where members had super user access, no issues of concern had been identified, which was a positive. However, it was recommended that all journals should be authorised by another person going forward.

The trial balance should ideally, come from the ledger. Some manual adjustments had been done outside of the ledger to reconcile the accounts, but MS advised this was not recommended.

Revenue recognition:

MS flagged two issues:

- It was recommended that old NHS debt be written off.
- The Road Traffic Accident (RTA) centre had been under-accrued by around £700k, caused by spreadsheet management error.

Property:

Some people's salaries had been capitalised when they should not have been. When the error had been extrapolated, it had amounted to around £336k, which was not significant.

Some work was ongoing in relation to property, plant and equipment, however, MS commented that the Report was pretty clean in the circumstances.

Remuneration:

The Remuneration Report had been reviewed. A lot of disclosure changes had been identified but nothing to fundamentally impact pay or performance disclosures. MS commented that a more accurate Report would be helpful in future because corrections were time-consuming.

New Risks:

A small projected error of around £389k had been detected in potentially overstated payables.

IT Auditor-Identified Risks:

MS commented that it was important for the Trust to respond to the IT controls risks. MS expressed the view there were staff members who had far too much access to the financial systems, leaving the Trust vulnerable to possible manipulation of financial statements.

Journals:

MS commented that poor journal control could negatively impact accounts and strongly recommended that the controls be reviewed for robustness.

Estimates:

MS reported that GT had been happy with the key assumptions and estimates in relation to land and buildings.

Going Concern:

Going concern had been looked at in detail. There was an assumption (Practice Note 10) that unless the Secretary of State indicated to the contrary, it was assumed that the Trust was a going concern. Cashflow and the Trust's underlying financial position had been reviewed, with no issues identified that might indicate a material uncertainty would need to be reported.

Audit Adjustments:

There was a potential non-material impact on the Financial Statements of around £4.5m which would increase the surplus. The issue was around operational expenditure.

Value for money

The Value for Money Review had changed significantly to include financial sustainability, governance and economy, efficiency and effectiveness of the Trust.

In terms of financial sustainability, the Trust had a strong track record of delivery. In 2021, the financial regime had changed, but the Trust had delivered a surplus. Overall, it had performed well in the year. Going forward however, the concern was that when the current arrangements for financing the NHS changed, the Trust did have an underlying deficit (amount uncertain).

The new hospital would open in less than 12 months but there was still a lot of work to do on workforce and revenue viability plans. It was acknowledged that the Trust was aware of this, but there was still work to do to ensure future financial sustainability. This had been recognised by GT as a significant weakness.

Governance

All aspects of governance had been reviewed and overall, the Trust had performed very well in terms of its core governance processes.

However, arrangements for a lead guardian in the Freedom to Speak Up campaign needed to be finalised. Leadership had also been reviewed. It had been a difficult year for the Trust with a lot of interim leaders in place and some reviews into personal behaviour.

MS expressed confidence that the Trust now had the right people in place and was focused on the future and a governance review was underway, however, MS commented that it would be important for high governance standards to continue to be a priority.

Economy, efficiency and effectiveness

It was accepted that the former Board strategy had lapsed because of COVID-19. Three new objectives had emerged.

A review of data had revealed the following weaknesses:

- Low patient and staff satisfaction was a concern.
- Mortality rates were high and this issue had been discussed with the Medical Director and the Acting Chief Nurse. MS reported that GT was happy there was proper process in place. A peer review had been recommended of Learning from Deaths. Everyone believed the issue emanated from data, but this was yet to be proved which was a discomfiting position.
- In relation to the CQC, it had been expected that the Trust would have a clear CQC response plan backed by a repository of data. However, GT held the view that the Trust's response

should be a lot stronger because the CQC would expect a very clear articulation of how the Trust had resolved the issues it had raised following its last inspection.

DB commented that it was expected that the mortality metrics would start to fall and a large mortality work programme was in place.

HK queried the data point made. MS stated that conversations had identified data as being the problem but the Board was required to be rigorous.

Financial Statements:

In terms of the financial statements, GT had been working hard towards an unqualified opinion. There were a lot of very good things in place in relation to value for money.

LW commented that the audit had been incredibly useful.

HK queried the size of the potential underlying deficit. MS stated that this was hard to estimate until the affordability work had been completed. DMc commented that the draft report had included a figure of £42m. There was a huge amount of uncertainty going forward including the MMUH affordability work which was underway. She expressed confidence there was enough time to resolve issues and establish controls. The Trust had committed to reviewing the underlying position again.

The deadline for the accounts to be submitted was the 29th June, 2021.

KD advised there would be a report coming to the Board in the next week in relation to CQC preparedness. The Trust was largely in agreement with the GT report's findings.

ML queried how the Trust compared to others in relation to CQC preparedness. MS expressed the view that the Trust needed to take action, because it was currently an outlier.

MS stated that the accounts would be signed off but the audit certificate would be withheld along with everyone else in the country whilst a report was produced.

In terms of any delegated authority for minor adjustments these would go to the A&RM Chair, major changes would be considered by full Committee. The Committee expressed satisfaction with the approach.

Governance Statement:

SR commented there had been some changes in relation to the Annual Governance Statement, commentary had been added about incident reporting and compliance with the NHS Provider Licence (governance and use of resources). Having done an assessment, the Trust was compliant with both.

There was additional narrative on the workforce assurance controls and the GGI Developmental Review had been noted. The final conclusion had acknowledged that the significant internal control issues last year had persisted this year. It had been signed off by Richard Beeken (Interim Chief Executive).

It was advised that the Trust could choose to be late in its final submission if Committee members were content. This was **AGREED**.

It was also agreed that significant change should be signed off by the Trust Board.

LW extended thanks to GT and the finance team for their work.

6. Data Security Protection Toolkit 2020/21 submission

AR (06/21) 005

LW introduced this item stating that the Trust had struggled for a number of years to be compliant in

this area.

SR confirmed that the Trust had been unable to submit a compliant declaration last year. The Trust would need to provide a self-assessment against each of the ten national data security standards and therefore was required to provide 110 evidence items. This was in the public domain and there were consequences for not achieving compliance i.e. financial and research and development.

The focus had been on the mandatory assertions because there was a long way to go before the Trust could get to best practice standard.

An internal audit report (currently in draft) containing the management responses was being put together. The report had reviewed 13 assertions across the 10 standards. This had increased the evidence in the repository. The necessary evidence would be uploaded by 30th June 2021.

The standards chosen had been advised by NHS Digital.

There were a number of Trust-wide information governance policies which had been updated and would be reviewed by the Information Governance Group before going to the Trust Board for approval. These included management of corporate manual and electronic records, data quality policy and the health records policy.

Data flow mapping and significant registers needed work but a 12-month rolling improvement plan had been put in place.

In terms of data security there had been an increased engagement from IT and a lot of evidence had been produced to support the assertions.

There were two assertions where standards had not been fully met:

- Mandatory training and compliance Trust-wide for information governance. The 95% target had not been met, 93% had been reached. A campaign of awareness raising had begun.
- Penetration testing required annually, had not happened. IT had tendered and awarded contracts to an external penetration testing supplier, but the testing would not take place until early July. This meant that the final report would be uploaded to the toolkit by the end of July 2021.

LW queried whether there was confidence that the actions could be achieved by the deadline and also queried what assurance could be given to the Committee that this area was being given priority. SR assured that the evidence target would be achieved by 30 June.

MATTERS FOR INFORMATION/NOTING

7. Items for Next Agenda

- Counter Fraud Annual Report
- Risk Management Capacity and Capability
- Update on Data Quality Improvements

Verbal

Noted.

8. Matters to raise to the Trust Board

- Audit Findings from GT
- Data Security Protection Toolkit

Verbal

9. Any other business	Verbal
Not discussed.	
12. Details of Next Meeting	
The next meeting will be held on Thursday 2 nd September 2021, 15:30 - 17:00 by WebEx meetings. (An additional earlier meeting TBA)	

Signed

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Date