

## minutes

Item 6.1.1b\*

### E- Meeting of the Audit Committee

#### Minutes of the Audit Committee Meeting scheduled on Friday 19<sup>th</sup> June 2020

<b>Meeting Participants:</b>		
<b>Committee Members:</b>	<b>Julian Farmer</b>	<b>Non-Executive Director-Chair</b>
	<b>Nick Brooks</b>	<b>Non-Executive Director</b>
<b>Committee Attendees:</b>	<b>Bob Burgoyne</b>	<b>Non-Executive Director</b>
	<b>Mark Jones</b>	<b>Non-Executive Director</b>
	<b>Karen O'Hagan</b>	<b>Non-Executive Director</b>
	<b>Gary Baines</b>	<b>Assistant Director-MIAA</b>
<b>Committee Attendees:</b>	<b>Karen Edge</b>	<b>Chief Finance Officer</b>
	<b>Laura Hunter-Cross</b>	<b>Head of Financial Accounts</b>
	<b>Lucy Lavan</b>	<b>Director of Corporate Affairs</b>
	<b>Frankie Morris</b>	<b>Deputy Chief Finance Officer</b>
	<b>Michelle Moss</b>	<b>Anti-Fraud Specialist-MIAA</b>
	<b>Georgia Jones</b>	<b>Senior Manager-Grant Thornton</b>
	<b>Paul Dossett</b>	<b>Director-Grant Thornton</b>
	<b>Nigel Woodcock</b>	<b>Senior Internal Audit Manager-MIAA</b>
<b>Apologies:</b>	<b>Jane Tomkinson</b>	<b>Chief Executive</b>

In accordance with the Trust's response to Covid-19, the meeting was conducted remotely via video conferencing to maintain social distancing.

#### Action

#### 1. Apologies for Absence

As above.

#### 2. Declarations of Interest

All meeting participants had been asked to declare any interests in respect of items listed on the agenda. All participants declared that they had no interests.

#### 3. Governance and Risk

##### 3.1 Annual Governance Statement 2019/20

The Director of Corporate Affairs presented the final 2019/20 Annual Governance Statement, on behalf of the Chief Executive Officer, advising that since review of the draft AGS in March, a number of updates had been made to reflect the new governance structures ('Command and Control') put in place at LHCH which enabled the Trust to respond appropriately to the Coronavirus outbreak, ensuring both staff and patient safety.

The key risks were highlighted as:

- Diagnostic waiting times had exceeded the target throughout 2019/20 but investment in increased capacity had supported an improvement trajectory which was to return to compliance by the end of June 2020. However, this position had subsequently changed due to the Covid-19 pandemic when elective surgery was suspended as of March 2020. The Audit Committee was asked to note that the Trust was currently embarking on a recovery plan to gradually increase activity, but it would take some time to return to compliance in respect of both RTT and diagnostic access.
- The Trust had received four limited assurance reports from internal audit in 2019/20. The first related to administrative processes to support fundraising and these had now been reviewed, strengthened and documented. The second related to the pre-employment staff integrity vetting - the management response and action plan was considered by the Audit Committee in January 2020. The third related to IT Service Continuity and the fourth concerned IT Asset Management. The management responses to the IT audits had now been completed. Audit Committee members were informed that management had directed internal audit resource to each of these areas.
- There had been seven serious incidents, including one 'never event' in 2019/20, three of these serious incidents resulted in "no harm". All had been subject to full root cause analysis, identification and cascade of organisational learning and duty of candour applied as appropriate.
- Pages four and five of the statement detailed the risk and control framework and highlighted that the quality governance was well embedded throughout the Trust with a particular focus for 2019/20 on cyber security.

Future risks were noted as: delivery of 2020/21 financial plan and it was noted that this was in the process of being reviewed in light of the interim financial regime which provided block contracts with top up payments; impact of external environment; workforce; and delivery of targets. Full details of which were provided within pages seven and eight of the AGS.

The Chief Executive's conclusion, based on assurances received throughout the year including the Head of internal Audit's Annual

Opinion confirmed that there were no significant control issues identified in 2019/20, however during the year the Trust had actively addressed the actions and organisational learning arising from the reported serious incidents and had maintained an active oversight of the effectiveness of controls in place to mitigate the risk of harm and ensure delivery of operational targets.

The external auditor agreed that the statement provided a fair and balanced view of arrangements for LHCH.

The Chair of the Audit Committee added that throughout the year the Audit Committee had considered potential AGS issues as part of its standing agenda at each meeting, and this affirmed that the AGS was comprehensive and robust.

The Audit Committee recommended the statement for final review and sign off by the Board of Directors on 22<sup>nd</sup> June 2020.

#### **4. Annual Accounts Review**

##### **4.1 Review Audited Annual Report, Accounts and Financial Statements 2019/20**

As required by the NHS Act 2016, the Trust has prepared Annual Accounts; Foundation Trust Consolidation schedules (FTCs) and an Annual Report in accordance with the Department of Health and Social Care General Accounting Manual (DHSC GAM) and the NHS Foundation Trust Annual Reporting Manual (ARM). The accounts were submitted to NHS Improvement and to Grant Thornton UK LLP, the Trust's external auditors on 27<sup>th</sup> April 2020.

Following the completion of the external audit, the final audited version of these documents were required to be submitted to NHS Improvement before 12.00 noon on 25<sup>th</sup> June 2020.

The audited annual accounts for 2019/20 were contained within pages 84-90 of the annual report and the Chief Finance Officer took the Committee through the key points;

- The Statement of Comprehensive Income (SoCI) reports a surplus for the year of £2.133m. In monitoring Trust performance against its Control Total, impairments of £1.525m and £22k of donated asset depreciation were added back. Performance against the 'Control Total' for the year was therefore £3.680m. This position was £673k higher than reported to the Board of Directors at month 12 due to a re-calculation of depreciation and PDC following the identification during the audit that the Land and Buildings valuation was overstated by VAT, which had been double-counted.
- The position included £1.927m of Provider Sustainability Funds (PSF) monies, which included £165k related to 2018/19 re-allocations from NHSI.

Other areas of note were:

- i. Inventory count-due to the impact of COVID-19 the Trust was unable to carry out comprehensive stock-counts at year end. The values in the financial statements rely on values generated by the Trust's electronic systems complemented by analytical review for reasonableness. The value was management's best estimate, based on the information available.
- ii. Valuation uncertainty - the valuation provided by Cushman and Wakefield had been reported on the basis of a "material valuation uncertainty" as a result of the impact of the COVID-19 pandemic on global financial markets. As less certainty could be attached to the valuation of the property, this would be kept under frequent review.

The CFO confirmed that Grant Thornton UK LLP had issued a qualified opinion on the financial statements due to the limitation of scope with respect to inventory count. The audit findings report and the audit of inventory letter below provided further details.

A question was raised as to whether the Trust had continued to see patients from Wales during the Covid-19 response, the CFO confirmed that whilst Welsh patients had continued to be treated at the Trust, the numbers were lower, as for all activity, following the suspension of elective work in March. However, all patients had been clinically reviewed and prioritised and would be invited to attend in line with the Trust's recovery plan and in accordance with clinical need.

The CFO thanked the finance team for the work ethic shown during the audit at such a challenging time.

The Audit Committee recommended that the Board of Directors formally approve the 2019/20 annual report, accounts and financial statements prior to submission to NHS Improvement.

#### **4.2 LHCH Letter of Representation**

This representation letter was provided in connection with the audit of the financial statements of LHCH NHS Foundation Trust for the year ended 31<sup>st</sup> March 2020 for the purpose of expressing an opinion as to whether the Trust financial statements were presented fairly, in all material respects in accordance with International Financial Reporting Standards, the NHS Foundation Trust Annual Reporting Manual and the Department of Health and Social Care Group Accounting Manual 2019/20 and applicable law.

Points 16-19 on page three of the letter noted the exceptions as detailed above at agenda item 4.1.

The CFO confirmed that whilst there may be limited financial certainty beyond July 2020 with regard to the detail of the financial regime, there were no grounds to change the going concern assessment as there were sufficient resources available for the foreseeable future.

The Audit Committee confirmed its assurance that the arrangements the Trust had in place were those described within the letter and were

consistent with what had been presented throughout the year. The committee would recommend the Board of Directors to authorise the signing of the letter prior to submission to NHSI.

### **4.3 Those Charged with Governance Statement**

As part of the annual audit, the Chair of the Audit Committee had been asked by the external auditors to provide responses to a series of questions relating to fraud risks within the Trust. The questions and proposed responses were set out within the paper.

All Audit Committee members confirmed that they had reviewed the responses provided and confirmed that they were satisfied that they were an accurate reflection on the current position.

### **4.4. Audit Findings Report 2019/20**

The comprehensive report set out the findings and conclusions of this year's audit at LHCH. Page four of the report provided a summary of the key headlines arising from the audit, with the external auditors concluding that following today's Audit Committee and receipt of the management representation letter and review of the final set of financial statements a qualified audit opinion would be issued. This was due to the limitation of the scope of the audit and the materiality of the value of the Trust's stock, which could not be formally validated due to COVID 19; and was through no fault on the part of the Trust.

It was noted that an addendum to the external audit plan as a result of the Coronavirus outbreak was issued to the Trust in April 2020 and was provided for further discussion below at agenda item 6.1.

The audit work was completed remotely during April-June with the findings summarised on pages six to eighteen of the report. One adjustment to the financial statements had been identified which resulted in a £2.4m adjustment to the Trust's surplus position, details of which were detailed in Appendix B. Recommendations raised for management as a result of the audit work were provided in Appendix A of the report.

The external auditor had identified a limitation of scope to their opinion, relating to the existence of inventory; as a result of the Trust and the audit team being unable to attend stock takes at year-end owing to physical distancing restrictions in place at this time. A number of Trusts were similarly in this position and all audit firms were required to take the same stance. It was noted that NHSI would write to all provider Trusts impacted by this to set out their acknowledgment that this was a consequence of the pandemic and not a matter that reflected on organisational performance or control.

Similarly, as a result of the Covid-19 pandemic, the Trust's external property valuers had identified a material estimation uncertainty relating to market conditions and build costs which affected the year-end valuation of the Trust's land and buildings portfolio. Management had disclosed this material uncertainty in the final draft of the financial statements and the external auditors had referenced the disclosure of this material uncertainty in their audit opinion.

Audit Committee members were asked to note that both of these issues were prevalent across the sector and had been recognised as acceptable reporting matters for 2019/20 by NHSI.

The external auditors had also identified the requirement for a prior period adjustment in respect of VAT on the value of land and buildings, details of which were set out on page 13 of the report.

In relation to the areas of work in the report noted as 'continuing', these were very near completion with only minor queries remaining and the external auditors would expect all queries to be closed by the end of the day.

There was nothing to report by exception regarding the value for money arrangements and the findings were summarised on pages 19-21 of the report.

The external auditors confirmed that the materiality levels remained the same as was reported in the audit plan.

Full information relating to going concern was provided on pages eight and nine of the report with the external auditors highlighting that in accordance with the Department of Health Group Accounting Manual 2019-20 the financial statements had been prepared on a going concern basis as Directors did not either intend to apply to the Secretary of State for the dissolution of the Trust without the transfer of the services to another entity, or consider that such course of action would be necessary.

Trust management had set out its assessment of going concern to the Board of Directors. This considered the Trust's financial position, financial planning, income and contracts together the arrangements that had been put into place by NHSI at that time which included a block payment being provided by NHSI for April to July 2020, and any additional expenditure on Covid-19 being funded. Whilst the position for the remainder of the year at that time was still to be confirmed, there was no indication that the Trust's assessment was unreasonable. Trust management did not identify any material uncertainty in relation to the going concern assumption.

In relation to risks identified in the audit plan;

- No issues had been identified in respect of management override of controls
- The testing was now complete regarding revenue recognition and it was confirmed that the revenue stated in the accounts was fair and had been received. The identification of two unsigned contracts highlighted a control issue that the Trust would address.
- In 2018/19 the valuation of land and buildings was carried out on an alternative site basis for the first time. The Trust's valuers' report stated the VAT was excluded from their valuation of land and buildings. In the external auditors opinion the evidence

provided to support that treatment was not sufficient to support full VAT recovery on a replacement build and management added back the VAT and amended the financial statements to correct the material misstatement. In 2019/20 the valuers report stated that VAT was included in their valuation of land and buildings and the external auditors testing identified that management had also added VAT onto the values in the report, meaning VAT was double counted. Trust management liaised with the valuer who confirmed VAT was included in their 2019/20 valuations and also advised that VAT had been included in the valuations for 2018/19 and the comment in their 2018/19 report that VAT was excluded was a typographical error, meaning that VAT had been double counted in both 2018/19 and 2019/20. Management had processed a prior period adjustment to correct the 2018/19 figures and had also adjusted the 2019/20 figures to correct this year's misstatement. As a result an amber materiality was given.

- The external auditors were waiting to close on the IFRS 16 disclosure on the accounts.

The value for money work concluded that there was nothing to report around the Trust arrangements regarding financial sustainability.

The CFO confirmed that the Trust had expressed their concerns to Cushman & Wakefield about the reputational issues and additional work their error had caused and would expect a refund or considerable discount.

The Audit Committee noted the report and the Chair acknowledged the effort of the LHCH finance team and external auditors in getting the audit and accounts completed with the timeframe, particularly during a global pandemic.

#### **4.5 Audit of Inventory**

The external auditor provided further detail in relation to the proposed limitation of scope qualification in respect of inventory.

Whilst ordinarily the auditors would attend the year end stock takes, the scheduled date at the end of March 2020 was cancelled due to the concerns surrounding the Coronavirus pandemic and social distancing guidelines. The external auditors were therefore unable to obtain the assurance required.

The Chair thanked Grant Thornton for the clarification on this matter.

### **5. Internal Audit**

#### **5.1 Head of Internal Audit Opinion**

The Assistant Director of Internal Audit highlighted that the first four pages of the paper provided details on the MIAA response on internal audit issues arising from the Covid-19 pandemic and how this would impact on the 2020/21 internal audit plan.

The Trust received an overall audit opinion of substantial which was summarised on page eight of the report, with commentary provided giving context on how that opinion was reached; noting the assurance framework, summation of yearly assurance and findings.

The internal auditors confirmed that this was a strong opinion with which the Trust should be satisfied and whilst four limited assurance reports had been issued during 2019/20, this showed that the Trust used the internal auditors well as these had all been highlighted as areas of concern by management.

The Audit Committee noted the contents of the report.

## **5.2 Final Anti-Fraud Annual Report**

The Anti-Fraud Specialist confirmed that there had been one minor change to the report following the presentation of the draft version at the Audit Committee in March 2020 relating to the proactive detection of travel and expenses. The report would be finalised and presented to the Audit Committee in July 2020, however early indications suggested that there were no areas of concern.

MM

## **5.3 Final Anti-Fraud Plan**

The Anti-Fraud Specialist confirmed that there had been no changes to the plan since it had been seen in draft at the Audit Committee on 24<sup>th</sup> March 2020. It was confirmed that the plan could be edited as the year continued to accommodate any urgent matters.

The Audit Committee approved the plan.

The Chair thanked the internal auditors for their continued hard work.

## **6. External Audit**

### **6.1 Addendum to External Audit Plan**

The Senior External Audit Manager provided the addendum which was issued to the Trust in April 2020 and detailed the risk relating to the Coronavirus global pandemic.

Audit Committee members noted the addendum.

### **6.2 Assurance Statement**

The Director of the external auditors provided the statement in response to concerns raised over reports in the press regarding Grant Thornton UK LLP. It was confirmed that the investigation was into that particular organisation rather than the audit of that organisation.

The statement highlighted that Grant Thornton UK LLP new Head of Audit had launched an Audit Quality Investment Plan in 2019 and there were further improvements in audit quality to be made. Key priorities were included within the statement.



The Chair acknowledged the statement as a key assurance piece for both the Audit Committee and the Council of Governors.

## **7. Minutes of the Meeting held on 24<sup>th</sup> March 2020**

It was noted that the minutes of the Audit Committee meeting held on 24<sup>th</sup> March 2020 had been reviewed for accuracy by all meeting participants and these were approved.

## **8. Action Log**

**Item 5-**The Annual Governance Statement had been updated with the necessary adjustments and presented to the Audit Committee as above under agenda item 3.1. This item would be marked as complete and removed from the action log.

**Item 6-**The annual report of the Audit Committee had been updated to note that all limited assurance reports were scrutinised by the Audit Committee, with the management lead in attendance to set out the management response. This item would be marked as complete and removed from the action log.

**Item 7-**The year end declaration position for the register of interests had been provided to the internal auditors via email on the 5<sup>th</sup> May 2020. This item would be marked as complete and removed from the action log.

**Item 12-**It was confirmed that the most up to date version of the SORD had been uploaded to the staff intranet. This item would be marked as complete and removed from the action log.

**Item 13-**The CFO confirmed that the Trust had agreed to extend the external audit contract with Grant Thornton UK LLP for another year and they would be completing the 2020/21 audit. This item would be marked as complete and removed from the action log.

**Item 15-**The Anti-Fraud Specialist confirmed that two of the RAG ratings applicable to 'Hold to Account' had been upgraded to green. This item would be marked as complete and removed from the action log.

All other actions were for review at Audit Committee meetings July 2020 onwards.

## **9. AGS Issues**

No further AGS issues were identified.

## **10. Evaluation of Meeting**

The Audit Committee was content with the mechanism in place for the e meeting, given the current extenuating circumstances.

## **11. Date and Time of Next Meeting:**

Tuesday 14<sup>th</sup> July, 8.30-10.30am