

**MINUTES OF THE AUDIT COMMITTEE HELD
ON TUESDAY 6 JUNE AT 9AM IN CLASSROOM
5, EDUCATION CENTRE, CUMBERLAND
INFIRMARY, CARLISLE**

Present: Mr M Evens, Non-Executive Director (Chair)
Mr M Bonner, Non-Executive Director

In Attendance: Mr A Mulvey, Director of Finance/Deputy Chief Executive
Mr E Gardiner, Deputy Director of Finance
Mrs C McAdams, Head of Internal Audit
Mrs J Bellard, Audit Commission
Mrs G Martlew, Audit Commission
Mr M Little, Trust Chairman (Observer role)

Mrs J Lynch, Office Manager (minute taker)

AC40/12 WELCOME AND APOLOGIES FOR ABSENCE

Mr Evens welcomed everyone to the meeting.

Apologies for absence were received from Mr P Day, Ms J Cooke, Mrs R Duguid.

AC41/12 MINUTES OF THE PREVIOUS MEETING

The minutes of the May meeting would be reviewed at the September meeting.

AC42/12 MATTERS ARISING AND ACTION PLAN

Matters Arising:

Matters arising from the previous minutes would be reviewed at the September meeting

Action Plan

The action list would be checked at the September meeting.

AC43/12 ANNUAL GOVERNANCE REPORT 2011/12

Mrs Bellard presented the Annual Governance Report 2011/12 to committee members. The following key points were noted:

- At 1 June 2012 the audit was not sufficiently complete to allow an opinion to be formed. Mrs Bellard informed members that there was another 1 ½ day's detailed work to be done. There were a number of reasons for this. Mr Evens asked if External Audit were in a position to recommend the accounts to the Trust Board for approval. Following discussion Mrs Bellard confirmed that the minor aspects of work left to be done would not affect their giving approval for the accounts to go to Trust Board for approval.
- Mrs Martlew updated members on the uncorrected errors part of the report, with an emphasis on Goods Received Not Invoiced (GRNI) Mr Gardiner updated members of the background of the issue relating to the uncorrected errors. Mr Evens questioned Mrs McAdams as to why Internal Audit had not picked up the issue of GRNIs, to which Mrs McAdams reported that she would look into this and do a 'walk through' of the system. Mrs Bellard reported that she did not think the errors were material and would not stop an opinion being given as sufficient testing had been done.
- Mrs Martlew reported that PFI related expenditure had increased significantly in year. Mr Mulvey questioned if Mrs Martlew had seen the reconciliation of movement to which Mrs Martlew reported that she had along with the working paper which showed the increase in years. Mr Evens questioned if External Audit were satisfied with the explanation they had been given in relation to this issue. Mrs Bellard reported that they were satisfied the accounting had been correctly reported. Members discussed the reasoning behind the increase in the PFI contract. Mr Mulvey reported that understood that any unused life cycle spend would be shared 50:50 although he would need to confirm this after reviewing the contract and work was being undertaken to follow this through. Mr Evens thanked members for the work undertaken in relation to the delivery of the PFI life cycle costs.
- PCI unit: members discussed the costs in relation to the PCI unit and whether the unit and the equipment used within the unit was leased or capital. Mr Mulvey to check if the equipment was 'capitalised' as a whole.
- Deferred income: Mr Evens questioned the WCH redevelopment costs as showing as non NHS deferred income. Mr Gardiner explained that the invoice had been raised in the previous financial year but the PCT had treated this as expenditure, which was incorrect. Mrs Bellard confirmed that the PCT accounting was incorrect. Mr Evens asked if External Audit were happy with the way this had been dealt with by the Trust. Mrs Bellard reported that it had been looked at as a balance sheet classification.
- IT Fraud: Mr Evens questioned the item of fraud as it had not come to the attention of the Audit Committee. Mr Mulvey and Mrs McAdams gave detailed background information relating to the issue, which was still being investigated. Mrs Bellard reported that it was a complicated case but she was happy with the way the investigation was being undertaken.

- Value for Money: Mrs Bellard reported to members that the Trust had failed to achieve the Cost Improvement Target and plans were not fully in place for 2012/13. Members discussed this issue and the Trust's financial issues in detail. Both Mr Evens and Mr Bonner expressed their concerns that the position the Trust was in relating to the acquisition, the tripartite agreement, the full support from the SHA and how the Trust was working with the SHA in relation to the finance issue had not been taken into consideration. Mrs Bellard informed members that she understood the position the Trust was in but fundamentally the Trust was not financially resilient. Mr Evens requested the Value for Money statement be adjusted to reflect the situation the Trust was going through; this was discussed in detail. Mrs Bellard agreed to reconsider her statement but informed members that it was not likely she would change the statement.

The report was **NOTED**.

Action: Annual Governance Report

1. Mrs McAdams to look into the issue relating to uncorrected GRNI errors and do a 'walk through' of the system.
2. Mr Mulvey to confirm if the costs relating to the PCI unit were 'capitalised' as a whole.

AC44/12 ANNUAL ACCOUNTS 2011/12

The Annual Accounts 2011/12 were discussed and the following key points were noted:

- The contract for mental health provision at the West Cumberland Hospital was briefly discussed. Mr Mulvey reported that the Trust was in discussion regarding the Partnership Trust moving into the new unit and the leasing of those premises.
- Pension Costs: Mr Evens questioned why there had been a valuation in 2008, when following the guidance it should have been done in 2010. Mrs Martlew informed members that she had questioned this at the beginning of the audit but had not followed it through. Mr Evens informed members that if appropriate it should be left or changed to 31/3/2010.
- Mr Evens questioned the impairment of J Block at the West Cumberland Hospital as he could not see that it had gone through the accounts and felt it should have been done at the end of the process. Mrs Bellard reported that it would be impaired now and then the impairment would be reversed at the end of the process. Mrs Bellard further reported that it was assumed that the notes in the accounts would be removed. Mr Evens and Mr Gardiner agreed that any excessive notes should be removed.
- Intra-Government and other balances: Mr Evens informed members that he felt the information did not reconcile to anything in the current year. Mrs Martlew reported that this was part of ongoing work. Mr Evens requested that this be looked at as it would have to agree with the accounts or show an explanation of difference.

- Borrowings: Mr Evens questioned the amount of the total interest payment to be repaid as he felt the figure was too high. Mr Gardiner to check the working papers and report back.
- Provisions: Mr Evens questioned the increase in the payment to the NHSLA. Members discussed the reasoning behind the increase and Mrs Martlew agreed to look into the background of the NHSLA payments to see if payments from all Trusts had been increased or if it was just NCUH payment that had been increased.
- Related Party Transactions: Mr Evens questioned why the payments to GoodwinHannah Ltd were included along with other companies who were supplying services to the Trust. Mr Mulvey reported that the payments were in relation to work undertaken on a consultancy basis before Dr Goodwin became the interim Chief Executive. Mrs Martlew further explained that the positions held within the Trust of Dr Goodwin and Mr Magee were positions that could influence Trust decision making and that is why they were shown. Mrs Bellard reported that the Trust had not received a disclosure form from Mr Day, who as a Trust Non Executive Director also had substantial business interests. Mrs Lynch was asked to look into this and Mrs Martlew to check if any payments from the Trust had been made to his company.
- Breakeven Performance: Mr Evens questioned why the numbers did not reconcile back to the SOCI. Mr Gardiner informed members that the source of the numbers in the accounts came from two separate file locations and could not be changed. Mr Bonner asked that the minutes recorded his thanks for the excellent work that had been done as he had found the information extremely helpful.
- Mrs Bellard noted that the names on the letter of representation would have to be changed.

ACTION: Annual Accounts

1. Mr Gardiner to ensure excessive notes is removed from the Annual Accounts.
2. Intra-government and other balances. The information to be reconciled or show an explanation of the difference.
3. Borrowings: Mr Gardiner to check the working papers in relation to the interest payment and report back.
4. NHSLA: Mrs Martlew to look into the background of the NHSLA payments to see if payments from all Trusts had been increased or if it was just NCUH payment that had been increased and feedback to members.
5. Mrs Lynch to request a related party disclosure return from Mr Day.
6. Mrs Martlew to check if any payments had been made by the Trust to any of Mr Day's companies.
7. Mr Gardiner to change the names on the letter of representation.

With the above amendments, members recommended the Annual Accounts to go to Trust Board for approval.

Members returned back to the Annual Governance Report at this stage to discuss the Value for Money aspect further comments are listed in that minute point.

AC45/12 **INTERNAL AUDIT ANNUAL REPORT 2011/12 / HEAD OF INTERNAL AUDIT OPINION**

Mrs McAdams presented the Internal Audit Annual Report. The Head of Internal Audit Opinion gave an overall significant assurance level. This was given after taking into account the relevant materiality and importance of all reports issued and the various assurance levels given to each area. Main areas of concern were the Trusts ability to identify and deliver on the cost improvement target, management and maintenance of medical devices and aspects of information governance, in particular training and corporate records management.

Members **noted** the report and the Head of Internal Audit Opinion.

AC46/12 **ANNUAL GOVERNANCE STATEMENT**

Mr Evens reported that he would prefer the document to be shown in 'mark up' as this showed members the changes made. Members were asked if they had noted that additional information in item 2.3 and agreed that they had. The following amendments to the document were noted:

- Page 5, item 3.4, the year to be amended to 2010/11 and not 2011/12 as shown.
- Section 4; Mr Bonner confirmed that the Governance and Quality Committee had scrutinised the Quality Account to ensure accuracy of content and to ensure it reflected the quality of care delivered across the organisation in 2011/12.
- The sentence 'The Trust's Auditors have reviewed the Quality Account to ensure it fully meets the necessary reporting requirements' to be removed as this was work was ongoing.
- Appendix 1; amend the words 'Vic Chairman' to Vice Chairman'.

The report was **noted**.

ACTION: Annual Governance Statement

1. Document to be produced in future in 'mark up' showing the changes made to the report.
2. Amendments reported in the meeting to be given to Mrs Duguid to enable report to be updated.

AC47/12 **ANNUAL REPORT**

Mr Mulvey presented the Annual Report. The performance section was looked at in detail and it was noted that the traffic light system was confusing as the middle column was all showing as red. Members agreed that the table should be amended to show outturn red/green with text giving an explanation.

Mr Evens questioned why in section 7, page 58 the sentence 'Staff received an appraisal' was in both the areas highlighted as 'good' and 'not

so good but improving'. Mr Bonner reported that the wording had been amended in the Quality Account, Mr Mulvey agreed to look into this.

Operating and Financial Review: in relation to the cost improvement programme, the report on page 63 was giving out a mixed message. Mr Mulvey agreed to review the text.

Mrs Martlew informed members that she had reviewed the document but had not sent her comments back but would send any comments to Mr Mulvey.

Members **noted** the Annual Report.

ACTION: Annual Report

1. Mr Mulvey to ensure the wording was the same in the Annual Report and the Quality Account in relation to Section 7, relating to staff appraisals.
2. Operating and Financial Review: in relation to the cost improvement programme, the report on page 63 was giving out a mixed message. Mr Mulvey to review the text.
3. Mrs Martlew to send any comments relating to the document to Mr Mulvey.

AC48/12 COMPLIANCE LETTERS

Mr Evens informed members of the two letters that had been sent to the Audit Commission. One letter was from the Chair of the Audit Committee and reported on how the Audit Committee gained assurance from Trust Management and the second letter was from the Director of Finance regarding the understanding of the management processes and arrangements.

Mr Evens asked members to note the letters and asked if there had been any matters arising since the date of the letter. Mr Mulvey informed members of the potential loss/fraud issue relating to IT data and that this was ongoing work. Members noted this issue which was discussed in detail earlier in the meeting.

The report was **noted**.

AC49/12 GOING CONCERN

Mr Gardiner reported to members on the going concern – basis of preparation of the Annual Accounts. The report informed members of the Trusts legal requirements to prepare its accounts on a going concern basis and how the Auditors were required as part of the audit of the accounts to consider what the directors had done to satisfy themselves the accounts should be prepared on a going concern basis.

Members **approved** the report and recommended that the accounts be prepared on the going concern basis, recognising that the Trust was in the process of being acquired by Northumbria Healthcare NHS Foundation Trust, subject to regulatory approval.

AC50/12 LETTER OF REPRESENTATION

Mr Evens informed members that the letter of representation had been overtaken by changes reflected in the meeting. The following changes would be requires:

- The GRNI waiver would have to be added.
- The appendix would have to be amended to this year's date, as it currently showed the previous year. Mr Gardiner to amend the letter to enable it to be signed off.

<p>ACTION: Letter of Representation 1 Amendments noted in the meeting to be reflected in the letter by Mr Gardiner</p>
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AC51/12 ANY OTHER BUSINESS

There was no other business to note.

AC52/12 DATE, TIME AND VENUE OF NEXT MEETING

Tuesday 25 September at 9am in the Boardroom, Cumberland Infirmary, Carlisle.

AUDIT COMMITTEE ACTION LIST MEETING MAY/JUNE 2012

Minute Point Reference	Details of Action agreed	Action by whom	Timescale	Progress
NOVEMBER 2011				
AC83/11	Changes to the Audit Committee Handbook: Mrs McAdams and Mrs Duguid to meet to look at the Assurance Framework in relation to the Trust core business and milestones and how the Audit Committee could progress this. A proposal to be brought back to the February Audit Committee meeting.	Cheryl McAdams/ Ramona Duguid	February 2012 Revised Date May 2012. Revised date September 2012	Ongoing – The information to given to Mr Evens for the Audit Committee Annual Report which would be presented to the AC meeting in September
AC90/11	Quarter 2 Finance Report. Mr Mulvey to discuss with Mr Glendinning the benchmarking of our own Trust against other trusts in relation to the writing off of drugs.	Alistair Mulvey	February 2012 Amended Date May 2012. Further amended date September meeting	Complete – information from Mr Glendinning was sent electronically to members 07/06/2012 reporting that there was no benchmark available – locally, regionally or nationally.
AC91/11	Passive approval of low value invoices: Discussion on this item to be reconvened when Internal Audit have considered and assuredness checked the control mechanisms	Cheryl McAdams	February 2012. Revised date September 2012	Ongoing– Mr Evens requested a report to come to the AC Meeting at the September meeting

FEBRUARY 2012				
AC14/12	Payment by Results Follow up Report: The actions from the report to be added to the outstanding audit actions report	Eric Gardiner/ Jean Lynch	September 2012	
AC19/12	Draft Accounting Policies: 3. Mr Evens to look into the issue relating to Donated Assets and the use of IAS20 and SIC 10 with Finance Committee members and report back to The Audit Committee.	Mark Evens/Jim Tollitt	May 2012	
AC20/12	Terms of Reference 1. Mr Mulvey and Mrs Duguid to relook at the terms of reference document to amend it following discussion held at the Audit Committee meeting. The amended document to be sent to Audit Committee members prior to the meeting in May	Alistair Mulvey/ Ramona Duguid	May 2012. Amended Date September 2012	Ongoing – To be presented at September 2012 Meeting

MAY 2012				
AC27/12	Procurement Update Mr Gardiner to liaise with Mr Butcher regarding the issue of the revision of the Standing Orders and feedback to the Audit Committee on the outcome at the September meeting	Eric Gardiner	September 2012	
AC28/12	Medical Devices Equipment 1. Mrs Duguid to pick up the changes required within the documents with Mr Davidson outwith the Audit Committee meeting 2. Mr Davidson to update the matrix and present it to the Governance Committee 3. The Governance Committee to monitor the ongoing work and report back to the Audit Committee. Any issues would be picked up at the Private Trust Board	Ramona Duguid Alan Davidson Michael Bonner	September 2012 June 2012 September 2012	
AC29/12	Pathology/Mortuary Update: Mrs Duguid to discuss the monitoring of the mortuary/pathology yearly reporting to ascertain whether it should go to the Governance Committee or the Audit Committee	Ramona Duguid	September 2012	
AC30/12	Quality Account 2011/12 1. Members to pass detailed comments on the document to be passed directly to Mrs Duguid for action. 2. Mrs Duguid to action the amendments and issues mentioned during the course of the meeting. 3. The Governance Committee to check the Quality Account 2011/12 report for assuredness at the meeting in May, prior to it going to the Trust Board in June.	ALL Ramona Duguid Michael Bonner	June 2012 June 2012 June 2012	

AC31/12	<p>Draft Annual Governance Statement 2011/12</p> <ol style="list-style-type: none"> Section 3.3 to be amended by the addition of the word corruption throughout the section, thereby changing the content of the section to fraud and corruption. Ms Martlew asked for the wording on page 6 to be amended as it did not match the wording on the risk profile table. Mrs Duguid agreed to do this although she noted that this did not change the context of the risk. 	<p>Ramona Duguid</p> <p>Ramona Duguid</p>	<p>September 2012</p> <p>September 2012</p>	
AC32/12	<p>External Audit Update Report</p> <ol style="list-style-type: none"> Audit Committee meeting to approve the accounts to be moved back and a Trust Board meeting to be convened to approve the Annual Accounts and Annual Report 2011/12. Ms Martlew to discuss further with Mrs Duguid the issue of the Payment by results information in section 20 not matching the information in the Quality Accounts. Mr Gardiner to send the links in relation to the reconciliation of the accounts to Mrs Lynch so that they can be forwarded onto members. 	<p>Jean Lynch</p> <p>Gina Martlew/ Ramona Duguid</p> <p>Eric Gardiner</p>	<p>May 2012</p> <p>June 2012</p> <p>June 2012</p>	<p>COMPLETE</p>
AC34/12	<p>Internal Audit Plan 2012/13</p> <ol style="list-style-type: none"> Cheryl McAdams to change report title to 2012/13 as year Cheryl McAdams to amend the amount of work days to 465, as the correct number 	<p>Cheryl McAdams</p> <p>Cheryl McAdams</p>	<p>September 2012</p> <p>September 2012</p>	
AC38/12	<p>Any Other Business:</p> <p>The meeting to approve the Annual Accounts and Annual Report to be rescheduled. (see action 32/12)</p>	<p>Jean Lynch</p>	<p>May 2012</p>	<p>Complete. Duplicate actions AC32/12</p>

JUNE 2012				
AC43/12	Annual Governance Report			
	<ol style="list-style-type: none"> 1. Mrs McAdams to look into the issue relating to uncorrected GRNI errors and do a 'walk through' of the system. 2. Mr Mulvey to confirm if the costs relating to the PCI unit were 'capitalised' as a whole. 	Cheryl McAdams	September 2012	
		Alistair Mulvey	September 2012	
AC44/12	Annual Accounts			
	1. Mr Gardiner to ensure excessive notes is removed from the Annual Accounts.	Eric Gardiner	September 2012	
	2. Intra-government and other balances. The information to be reconciled or show an explanation of the difference.	Eric Gardiner	September 2012	
	3. Borrowings: Mr Gardiner to check the working papers in relation to the interest payment and report back.	Eric Gardiner	September 2012	
	4. NHSLA: Mrs Martlew to look into the background of the NHSLA payments to see if payments from all Trusts had been increased or if it was just NCUH payment that had been increased and feedback to members.	Gina Martlew	September 2012	
	5. Mrs Lynch to request a related party disclosure return from Mr Day.	Jean Lynch	September 2012	
	6. Mrs Martlew to check if any payments had been made by the Trust to any of Mr Day's companies.	Gina Martlew	September 2012	
7. Mr Gardiner to change the names on the letter of representation.	Eric Gardiner	September 2012		

AC46/12	<p>Annual Governance Statement</p> <ol style="list-style-type: none"> 1. Document to be produced in future in 'mark up' showing the changes made to the report. 2. Amendments reported in the meeting to be given to Mrs Duguid to enable report to be updated. 	Eric Gardiner	September 2012	
		Eric Gardiner	September 2012	
AC47/12	<p>Annual Report</p> <ol style="list-style-type: none"> 1. Mr Mulvey to ensure the wording was the same in the Annual Report and the Quality Account in relation to Section 7, relating to staff appraisals. 2. Operating and Financial Review: in relation to the cost improvement programme, the report on page 63 was giving out a mixed message. Mr Mulvey to review the text. 3. Mrs Martlew to send any comments relating to the document to Mr Mulvey. 	Eric Gardiner	September 2012	
		Eric Gardiner	September 2012	
		Gina Martlew	September 2012	
AC50/12	<p>Letter of Representation</p> <ol style="list-style-type: none"> 1 Amendments noted in the meeting to be reflected in the letter by Mr Gardiner 	Eric Gardiner	September 2012	