



Approved Minutes AC Min 06/18

Audit Committee

Minutes of Audit Committee

Friday 16 November 2018 at 11.00 am
Room 5.5, Meridian Court, Glasgow

Members present:

Russell Pettigrew, Non-executive (Chair)
Rani Dhir, Non-executive
Ali Jarvis, Non-executive
Paul Stollard, Non-executive
Paul McColgan, Non-executive (by tele-conference)

In attendance:

David Crichton, Health Scotland Chair
Cath Denholm, Director of Strategy (from 11.55 am)
Andrew Patience, Head of Finance and Procurement
Conor Healy, External Auditor
Tony Gaskin, Internal Auditor (by tele-conference)
Liam Slaven, Modern Apprentice
Anita Hastie (minute)

Apologies:

Gerry McLaughlin, Chief Executive
Michael Craig, Employee Director
Della Thomas, Executive and Governance Lead

1. Welcome

The Chair welcomed Liam Slaven to the meeting.

2. Declaration of Committee Members' Interest

No members' interests were declared.

3. Minute of previous meeting: 7 September 2018

The minute of the previous meeting held on 7 September 2018 was agreed as an accurate record.

4. Matters Arising (Action List)

- **Summary Action List**

- Item Number 2 – **Minute of previous meeting held on 20 June 2018**

- Complete**

- Item number 5 – **Review of 4 month financial position**

- Complete**

- Item number 7 – **External Audit update / reports Complete**
- Item number 8 – Internal Audit Plan 2018/19 **Complete**
- Item number 14 – **Draft agenda for next meeting Complete**

5. Audit Committee Change and Transition update (paper 54/18)

Cath Denholm spoke to the paper.

The purpose of the report is to provide the Audit Committee with a summary of activity on Change and Transition work, particularly as it relates to the Audit Committee's remit. The Change Oversight Group has defined 3 themes for change and transition. These are Due Diligence, Shaping the Future and Engagement.

Cath Denholm reported that the work on Due Diligence was increasing pace. It was felt that the biggest risk that remained for Public Health Scotland was, identifying the full financial resource that is available to Public Health Scotland.

Andrew Patience felt that there were 3 areas in particular to note:

- to confirm that Health Scotland's resources will transfer in their entirety, evidenced by an audit trail of allocation letters etc;
- Public Health Intelligence - the business unit of NSS will have its funding specifically identified;
- Corporate Services – specifically how NSS's current support for their business units is articulated and quantified.

It was noted that the issues are well understood and conversations within the Public Health Reform team were taking place. It is imperative that Health Scotland are clear in their communications and questions around this with the Public Health Reform team.

The Committee noted the contents of the report.

6. Review of 6 month financial position

Andrew Patience spoke to the latest monthly report.

With regard to the revenue resource limit (RRL), at 30 September 2018, there was an underspend of £233k (2.6%) against the 6 month phased budget of £8,928k.

Health Scotland are operating to a financial plan which shows a £325k saving as part of the £15m National Board savings target for 2018/19.

At present the National Boards individual forecasts show a £10m total towards the £15m target.

The Board's 2018/19 RRL as advised in the 2 October 2018 allocation letter from the Scottish Government was £19,790k which includes a baseline of £18,177k. Details of the expenditure are outlined in the report.

The £233k underspend against the phased budget consists of 2 elements: an overall underspend of £274k on staffing offset by an overspend of £41k on projects. The £274k saving to date is mainly due to vacant posts as our level of vacancies is higher than normal. Detailed staff forecasts are being updated throughout the year. The unallocated budget as at 9 October 2018 is £430k.

Year End forecast for 2018/19 is under monthly review and current details are noted in paragraph 8 of the report.

Two major pieces of work where additional expenditure is expected are around Mental Health and Public Health Reform work.

For Mental Health, review bid is for 3 specific posts with a FY cost of £134k (2019/20). The impact on 18/19 is circa £32k and is included in the salaries forecast. Whilst Health Scotland sought to use our non-core MH allocation in 2019/20 against these posts this has been ruled out by the Scottish Government.

In respect of Public Health Reform work, review bid is for 5 specific posts with a FY cost of £212k (2019/20). The impact on 18/19 is circa £37k which is included in the salaries forecast. We will seek to carry forward this funding specifically either in the carry forward surplus or by an allocation adjustment from 2018/19 to 2019/20.

Further changes are anticipated in what is an extraordinary period. There will be an underspend this year with an equivalent overspend next year, thus we are trying to manage between the two years. The ideal would be to carry forward £200K+ for the Public Health Reform work. There is likely to be quite a demand on our finances next year.

Work is ongoing with SG colleagues to establish what options are available to manage this year and next year's budgets. In doing so, there is a need to be mindful of the different external context and the particular scrutiny on health finances and forward budgets.

It was anticipated that from 1 December 2019, there would be financial planning for 2020/21 and beyond, across the organisations merging to form Public Health Scotland.

It is important therefore that we make sure that we are in a strong financial position going into Public Health Scotland. In order to do that,

there is a requirement to ensure that the posts we require are in place and acknowledging delivery of our operational priorities, of which mental health is core.

Recognising that there is now a gap before the next meeting, the Committee requested that a monthly Finance update be circulated to them so that any concerns can be addressed quickly.

Action:

- **Andrew Patience** to circulate a monthly Finance update to Committee members.

In terms of efficiency savings against the £15m collaborative National Boards Target, for 2017/18, the National Boards achieved a saving of £14.6m against the target of £15m. We have committed to a £325k saving on revenue as part of our financial and operational plan for 2018/19, being our assessment of our contribution to the £15m target from the National Boards.

The collaborative savings across the National Boards against the £15m target for 2018/19 amounted to £11.6m from initial plans. At meetings to 3 October 2018, the latest forecast was circa £10m. It is noted that the non-patient facing boards due to the loss of the 1% uplift have already made £5.3m of recurring savings with the Health Scotland uplift loss being £183k. The shortfall of £5m has still to be identified.

The £15m collaborative target is under review but little will come from collaborative working in 2018/19, so individual boards will need to consider their own plans/forecast with regard to the £5m shortfall.

The Scottish Government have advised that the individual board savings making up the £10m will be taken on a recurring basis. This raised significant issues for the non-patient facing boards. The Scottish Government have stated that future re-allocations can be made between boards.

There is an obligation to be mindful of the risks that previous norms do not continue to be future norms, ie, writing-off of brokerage, new focus on long-term NHS budget, challenges relating to the Scottish Government budget announcements in December etc. We also need to acknowledge that we are working in a different context under different pressures.

The Committee noted the content of the paper.

7. Review risk register and actions taken to mitigate risk (paper 56/18)

Cath Denholm highlighted that there were 2 sections to this report: the first; regular update on the 3 Corporate Risks the Audit Committee are responsible for; the second, following instruction by the Health

Governance Committee that CRR Risk 18-6 no longer reports to that Governance Committee, recommendations from the CMT as to the future management of this risk.

The risk description for CRR 18-6 is “as a result of not engaging local authority and third sectors in creating the new public health body, key perspectives are not heard, reducing its credibility”. The Corporate Management Team (CMT) had considered options for the future reporting of this risk (outlined in the paper). The favoured option was that CRR 18-6 would now go to the Board for scrutiny alongside regular reporting on the Board’s Stakeholder Engagement plan and other CRR risks continue to go to the Staff Governance and Audit Committees respectively. The recommendation from CMT to the Audit Committee is that they endorse this approach.

The Committee endorsed the recommendation, noting that it was important to emphasise that no less scrutiny was being put on our corporate risks as a result of this change.

Action:

- **Cath Denholm and Russell Pettigrew** to make explicit notification to Health Scotland Board as the Risk Owner for CRR 18-6. For incorporation into the Stakeholder Engagement Plan.

8. External Audit Report

On behalf of Deloitte, Conor Healy presented their draft planning report for the year ending 31 March 2019 audit.

There is awareness of the planned organisational changes in relation to the forming of a new Public Health Scotland body and it was noted that the “go live” date is now confirmed as 1 December 2019. Deloitte would monitor preparations for transition, keep abreast of developments and consider their implications for the Board as they arise over the coming year.

In relation to Key Risks, as with other public sector bodies, NHS Health Scotland continues to face financial challenges, due to uncertainty around future funding.

As at 30 September 2018, NHS Health Scotland is showing an underspend of £233k but is forecasting to break even with its Revenue Resourcing Limit of £19,790k by year end. The achievement of a breakeven position would be a key focus of the audit.

Significant audit risk is attached to accruals and prepayments made at the year-end.

In accordance with auditing standards, management override of controls has also been identified as a significant audit risk.

Principal risk and uncertainties include:

- Staffing recruitment and retention;
- Keeping pace with digital and ICT advancements;
- Data loss;
- Regulatory changes;
- Economic environment; and
- The impact of EU withdrawal

In terms of financial sustainability, the delivery of service currently underway and the resources likely to be available, commentary is difficult due to the organisational change. Deloitte will liaise with Audit Scotland and confirm the exact definition of the scope for this, in due course.

The Scottish Government Public Sector Financial Management has formalised the flexibility of 1% over 3 years. There was some initial confusion as to whether this applied to all Boards but confirmation has been received that it does apply to all Boards. Conor Healy indicated that some Boards had received confirmation of this by letter. Andrew Patience was unsure if Health Scotland had received anything in writing to date and agreed to follow this up.

Action:

- **Andrew Patience** to follow-up receipt of letter with regards to 1% flexibility from the Scottish Government

With regards to dependency on key suppliers, it has become clear that the collapse of Corillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny.

There is an expectation for public bodies to review their approach to openness and transparency to ensure they are keeping pace with public expectations and good practice. Evidence of good progress might include:

- Increased public availability of board papers;
- More insight into why some business is conducted in private; and
- Development of the form and content of the Annual Report.

The Chair enquired if there was a specific date when the examples above are required to be implemented.

Conor Healy intimated that it was more of a rolling exercise rather than a specific date for completion. Deloitte are reviewing the process

rather than the objective measure. For example, the process of how a decision was made and the provision of documentation to support that decision.

Tony Gaskin advised that if it was deemed helpful, specific issues could be discussed for inclusion in the audit.

Action:

- **Internal and external auditors** to discuss the specific issues for inclusion in the audit.

At the Private meeting with internal and external auditors today, it was noted that at the request of the Audit Committee, the external auditors agreed to contact Audit Scotland and clarify their expectations around the final audit of the Board, which is likely to occur mid-year.

Action:

- **Deloitte** to liaise with Audit Scotland to clarify their expectations around the final audit of Health Scotland Board.

The Committee noted the contents of the paper.

Conor Healy made reference to the second paper which had been circulated from Deloitte.

Deloitte's Centre for Health Solutions has looked at how connected medical devices are transforming health care.

The pace and scale of innovation has meant that some of the original predictions are already a reality, while some are still a way off and a few may never quite happen. The report evaluates more recent evidence and makes 6 new predictions of what the life sciences and health care ecosystem might look like in 2022 and the key constraints that will need to be overcome.

The 6 predictions are:

- The quantified self is alive and well;
- The culture in health care is transformed by digital technologies;
- The life sciences industry is industrialised;
- Data is the new health care currency;
- The future of medicine here and now; and
- New entrants are disrupting health care.

Key enablers identified to address these developments include:

- Wide-scale adoption of new digital and cognitive health technologies;
- Recruitment and retention of new skills and talent; and
- A new approach to regulation.

It is anticipated that digital technology will be the biggest driver for change. For example, Conor Healy advised that Sainsbury's had introduced automated finance processes. In their last annual report they had reduced back-office costs by 54%. Tony Gaskin intimated that NHS Lothian were trialling finance robotics within their computer systems. They are also trialling automated triage of cancer referrals and these systems are picking up 90% of urgent cases, whereas the average Consultant was picking up 30%.

Deloitte were in agreement that these changes needed to happen, however they required funding and that was the biggest concern, hence the gradual transformation.

Deloitte hoped to provide further information early in the New Year.

Action:

- **Deloitte** to provide further information on the key constraints that will need to be overcome for the predictions on life sciences and health care ecosystem.

The Committee noted the contents of the paper.

**9. Internal Audit Update
(papers 57/18 and 61/18)**

The internal auditors are in the process of completing the revised audit plan which will enable the Chief Internal Auditor to provide his opinion on the adequacy and effectiveness of internal controls for 2018/19.

Initial planning has commenced for the following assignments within the 2018/19 Audit Plan:

- H07/19 – Board Governance Arrangements
- H08/19 - Communication

The Board Governance arrangements were discussed at the private meeting.

The Board Governance Arrangements and Communication Internal Audits would be restricted to Change and Transition arrangements with regard to the set-up of Public Health Scotland. On review it was deemed appropriate that these two assignments would be best taken as one report albeit in two parts where appropriate.

Tony Gaskin advised that the Audit specification would be shared with the Audit Committee to ensure appropriate linkages with Health Scotland's internal governance review.

The Transition Audit will commence in January 2019. Tony Gaskin advised there were no concerns for year-end.

Action:

- **Tony Gaskin** to circulate the Audit specification with the Audit Committee.

The Audit Committee noted the completion to date of the 2918/19 Internal Audit Plan.

Reference was made to the Internal Audit Charter paper, which had been circulated.

In accordance with the latest Public Sector Internal Audit Standards (PSIAS), the Audit Committee is required to consider and approve an Internal Audit Charter.

There are no financial implications relating to the Charter, which merely expands on the relevant requirements of PSIAS in the context of NHS Health Scotland.

There is a requirement for the Audit Charter to be presented to the Corporate Management Team, for their consideration.

The Committee noted the report and a general comment was made in respect of the formatting, differing font sizes etc and a request was made for these to be rectified.

The Committee approved the contents of the report.

Action:

- **Tony Gaskin and Andrew Patience** to amend the document with regard to the formatting etc.
- **Andrew Patience** to present the paper to the Corporate Management Team for their consideration and endorsement.

10. Review Progress in implementing outstanding audit recommendations (paper 58/18)

Andrew Patience advised that there were 2 recommendations outstanding from the September meeting relating to the External Audit. No audit recommendations were considered at the September meeting, so there remain 2 audit recommendations.

These 2 outstanding recommendations had a future date of April 2019 and related to one external audit report.

There are no internal audit recommendations outstanding.

The Committee noted the 2 recommendations outstanding.

11. Review of occasional reports for relevant issues/items as issued by bodies at 21(o) of the Terms of Reference (paper 59/18)

Andrew Patience made reference to the Technical Bulletin Review from Quarter 3 (July to September).

There are a number of items that have been carried forward. These are more in respect of year-end reporting. Andrew Patience advised that there were no significant areas to highlight, though in light of earlier discussions, there are some general areas with regard to the mounting financial pressure on the NHS.

Andrew Patience felt it would be beneficial for himself and Conor Healy to work together to ensure that these areas were incorporated in Deloitte's reporting and follow-up through the Audit Committee.

Ali Jarvis wished to highlight to Committee members, the recent report on Integration of Health and Social Care and the recommendations within.

Russell Pettigrew made reference to the informative Counter Fraud Services (CFS) Network meeting he had attended on 15 November. He awaited circulation of the powerpoint slides and advised that if there was anything of particular importance, he would bring to the attention of the Audit Committee. In light of this meeting, Russell Pettigrew would have a follow-up conversation with Andrew Patience.

Action:

- **Andrew Patience** and **Conor Healy** to liaise with regards to Technical Bulletin Review updates;
- **Russell Pettigrew** to bring to the attention of the Audit Committee, items of particular importance from CFS Network meeting;
- **Russell Pettigrew** and **Andrew Patience** to have a follow-up conversation.

12. Procurement: biannual update

Andrew Patience advised that the National Boards collaborative programme are engaging with staff from the main support services to develop a target operating model and implementation roadmap. This would be used as a future service model that would see all National Boards operate a common way of working across the key support services.

The Heads of Procurement across all National Boards will be working together over the coming weeks, to develop a National Procurement Target Operating Model proposal, for Chief Executives to review.

It was also noted that there have been 5 tender waivers in the period April to September 2018. This compares to 6 in the previous 6 months.

Andrew Patience advised that efforts were being made to minimise these and ensure systems are robust.

The Committee were alerted to the impact on Minimum Unit Pricing and packages surrounding that area of work. It was understood that there are no risks to the whole programme at present, however, Andrew Patience agreed to follow this up.

Action:

Andrew Patience to make enquires with regard to the impact on Minimum Unit Pricing as a whole programme

The Committee noted the contents of the report.

13. Sustainability Annual Report

To be carried forward to the meeting in February 2019 as the data has only recently become available.

Action:

- Sustainability Annual Report to be discussed at February 2019 meeting.

14. Equality and Diversity – in year report

Cath Denholm reported that there has been normal activity around reasonable adjustments and so on, with no significant changes that merit reporting.

The majority of the team's time has been spent working on the general equality and diversity network activity. It was noted that NHS Health Scotland have recently been supporting impact assessment activity within NHS Lanarkshire.

It was confirmed that there is no obligation to produce a mid-year report. A full end of year summary will be prepared for the Board.

The Committee welcomed the verbal update.

15. Any other business

There was no further business.

16. Items for the reporting to the next Board meeting

Notification of the Finance position, with a request to circulate the finance reports over the festive period, to the Audit Committee.

Endorse the recommendation around CRR Risk 18.6.

Action:

- For Health Scotland Board, to note the finance position and endorse that Health Scotland Board were now the Risk Owner for CRR Risk 18.6.

11. Effectiveness of business

Committee members agreed it had been a good meeting.

12. Date of next meeting:

The next meeting would be held on 8 February 2019, at 10.30 am, Gyle Square.

Signature _____

Date _____