



Draft Minutes AC Min 02/19

Audit Committee

Minutes of Audit Committee

Friday 26 April 2019 at 10.30 am

Room 6.5, Meridian Court, Glasgow

Members present:

Russell Pettigrew, Non-executive (Chair)

Rani Dhir, Non-executive (until 12:42)

Ali Jarvis, Non-executive

Paul Stollard, Non-executive

Paul McColgan, Non-executive (from 10:45)

In attendance:

David Crichton, Health Scotland Chair

Gerry McLaughlin, Chief Executive (until 11:33)

Cath Denholm, Director of Strategy

Andrew Patience, Head of Finance and Procurement

Conor Healy, External Auditor

Allan Wilson, Internal Auditor

Nicole Smith, Executive and Governance Administrator (minute)

Apologies:

Michael Craig, Employee Director

Della Thomas, Executive and Governance Lead

1. Welcome and apologies

The Chair welcomed everyone to the meeting, noting that Item 5 would be covered first after which Gerry McLaughlin would be leaving.

Apologies were noted as above.

2. Declaration of Committee Members' Interest

No members' interests were declared.

3. Minute of previous meeting: 08 February 2019

The minute of the previous meeting held on 16 November 2018 was agreed as an accurate record subject to the following amendments:

- Correct the spelling of Russell Pettigrew and Conor Healy throughout.
- **Page 2 (bottom) / Page 3 (top) - Item 6** - Add "k"s to monetary figures.
- **Page 4 – Item 9** – The end of the first paragraph should read "the chief *internal* auditor to agree", rather than *external*.
- **Page 6 – Item 12** – The action should read "Cath Denholm to include sustainability information in the Q4 Performance report, *as well as the End of Year Impact report*".

Action:

- **Nicole Smith** to make the necessary changes to the minutes and action list of the 8 February meeting, as listed detailed above.

4. Matters Arising (Action List)

- 1. Item number 6 – **Review of 9 month financial position**
Action: "Andrew Patience to check as far as possible the possibility of carrying forward more than £212k, being the forecasted year end surplus, into 2019/20."
Update: Andrew submitted justification to Scottish Government to carry forward £362k into 2019/20. They have thus far been supportive, but have made no formal commitment unlike in previous years. The Board have approved the 2019/20 Financial Plan on the basis that the £362k will be carried over.

Action: “Gerry McLaughlin to confirm if the newly proposed 3 year financial plan will apply to all national and territorial health boards.”

Update: The 3 year plan has been submitted and is included in the meeting papers.

All other actions have been completed.

5. **Audit Committee Transition Issues**

Gerry McLaughlin spoke to the paper, authored by Della Thomas. For clarification, he noted that this paper is **not** the Change & Transition update that will be given verbally by Cath Denholm later in the meeting.

The paper sets a clear picture of the governance of Health Scotland (HS) until dissolution. David Crichton has written to Malcolm Wright with a series of concerns the Board has expressed, including the expiry of a number of Board members’ terms of office in November 2019, but has received no response as of yet.

The knowledge that a formal decision has been made to delay the vesting date for Public Health Scotland (PHS) to 1 April reduces the complexity of Appendix 3, as there is now a predictable scenario to work towards.

A helpful discussion followed clarifying the specific governance responsibilities until HS is dissolved. Committee members welcomed the considerable and detailed work to consider options to ensure good governance is maintained. However, in light of the delay in vesting day David Crichton noted that the Board has a full financial year to run and suggested that it would now be inappropriate to further dismantle our governance committee structures. This would be dependent on those Committees remaining quorate. Accordingly, he indicated that he would consult with all Board Members affected to establish their

willingness to extend their term if requested in order. He will do this ahead of a meeting with Mr Wright.

The Committee:

- Agreed the proposal to recommend to Board that the current Board Governance Transition Plan is closed off and a new plan developed against the two main governance priorities.
- Agreed that these two main governance priorities satisfactorily capture the HS Board governance priorities as we currently understand them.
- Noted the proposals should the Board be required to continue beyond 30 November 2019.
- *Did not* agree to recommend to the Board arrangements for the governance of HS business until dissolution as per the two possible scenarios.
 - o Instead, the Committee agreed the Board should receive a paper detailing governance arrangements in light of a formal decision.

The Board will receive a paper in May, before which we expect the deferment of the vesting date to have been formally communicated and the reply from Mr Wright to have been received. The paper will take into account the comments from this discussion and propose an appropriate schedule of business for the full business year.

Actions:

- **David Crichton** to meet with Board members before the May meeting to inquire about their willingness to extend their contracts.
- **Gerry McLaughlin** to pass the information from this discussion on to Della Thomas.

- **Della Thomas** to prepare a paper for the May Board, taking on board the Audit Committee's comments.

Change & Transition Update

Cath Denholm provided a verbal update on the change and transition process.

Project Planning – Project plans and timetables have been constantly changing and require reactive responses. This will be captured in the future Audit Report, but there is satisfaction that everything is being handled the right way given the ever changing status.

Due Diligence – The Corporate Services Project is highlighting a number of particular issues. The Workstreams are working to understand what resources are available, and asking important questions about the governance of decisions based around those resources. Going forward, it is important to keep an eye on managing assumptions made around HS resources, and ensure they're not diverted elsewhere. There is nobody formally representing PHS in these negotiations, which is an issue, but one for which a useful solution has been found.

6. Review of draft 12 month financial position

Update on Financial Plan (2019/20) approved at Board in March

2018/19 Financial Position: Draft 12 Month Report

Andrew Patience spoke to the report.

While the planned underspend is £362k, this paper reflects the forecasted underspend of £353k. The estimated underspend submitted to Scottish Government (SG) was £345k. This will not be finalised until after 30 April, giving SG time to make minor changes where necessary.

Item 5 (Financial Planning 18/19) – The budget for projects saw changes throughout the year, including significant bids, but against a

significantly higher allocated budget. In regards to the staffing budget, savings in the year had to do with high turnover and vacancies, and some of the surplus went towards the project spend.

Item 10 (Efficiency Savings/£15m Collaborative National Boards Target) – Health Scotland have contributed the committed £325k, as well as an additional non-recurring £60k, to the £15m Target. The savings shortfall of £2.7m lies mostly within patient facing boards, and it is believed it will carry forward as a non-recurring saving yet to be achieved.

The Committee noted the information in the report.

NHS Health Scotland Financial Plan 2019/20

Andrew Patience spoke to the Financial Plan for 2019/20, which was previously approved by the Board in March but has since been updated.

Item 5 (Salaries) – Five posts are being dedicated to support for the Public Health Reform Team (PHRT). The surplus carried forward from last year will help fund that, as well as boost the projects fund from £1.85m to £2m.

Item 10 (Finance Risks in 2019/20) – Of the five risks listed, the two key risks for HS going forward are: 1) Cost pressure target of £270k not managed in 2019/20, and 2) the project budget of £2m may be insufficient to achieve the delivery plan. These put a total of £362k at risk. Currently, it is believed that the cost pressure target is being managed well and that there are sufficient resources to achieve the delivery plan. Though additional funding would be useful, the delivery plan is not in jeopardy without it.

There was concern about the evolution of the staffing budget, as it has increased to 77%, could put pressure on the way HS is perceived to

perform. As rationale, it was reiterated that the staff are core to how business is done. It was also noted that there has been an increase in head count this year, including in the PHRT, which is useful for influence and resource protection. In terms of receiving transfer from the PHR budget for this staffing, it is unlikely. Scottish Government have engaged third parties, including Deloitte, to develop a National Capital Plan to avoid slippages, etc. It is assumed pay will be built into that, and it is ultimately the responsibility of the new PHS Board to ensure that it is.

The Committee noted the updates to the 2019/20 Financial Plan.

7. Review risk register and actions taken to mitigate risk

Cath Denholm spoke to the Corporate Risk Register Update.

The update, based on the 2018/19 Risk Register, details risks 18.1, 18.2, and 18.3, and the established controls and actions being taken to mitigate them. Going forward into the new financial year, the Risk Register will be updated with new risks and actions and there will be more clarity around transition issues.

It was noted that as HS will now have a full financial year to run, risks outside of transition work should be taken into account as well. It was agreed the Board would receive a paper in May to this regard.

Action:

- **Cath Denholm** to prepare a paper for the May Board on the topic of non-transitional related risks for 2019/20.

The Committee noted the paper.

8. External Audit Update

Conor Healy gave a verbal update on behalf of Deloitte.

The year end work has not yet begun, but everything is currently on track for a relatively smooth audit. Deloitte is working on how to transfer assets, and will come back to the Committee when the process is decided on. There will be audit closure meetings taking place on the 23 and 24 May, at which point management will be given the draft Audit Report to consider before it is brought to the Committee on 7 June.

9. Internal Audit Update

Allan Wilson spoke to the three papers provided for the update.

Internal Audit Progress Report

This paper gives an update on progress in completing the internal audit plan for 2018/19. It was decided to extend the audit year to June, so the Committee will receive the final internal audit report on 7 June.

The Committee noted the report.

Audit Follow-Up

This paper summarises Board effectiveness. It is the opinion of the auditors that a well-structured follow-up protocol remains in place and that the Committee is receiving adequate information to approve all recommendations. Three recommendations were considered of which one was implemented and two were partly implemented, but are now obsolete due to change and transition work.

The Committee accepted and endorsed the report.

Governance and Management of Change

This paper considers effectiveness of communication strategies and the appropriateness of the governance framework in place. It is of the opinion of the auditors that there is effective communication strategy with key national partners, and a positive system in place for communication with staff along with a process for them to obtain more

information if necessary. It was noted that the Board has been taking an active role to approve actions regarding transition concerns. It was also noted that a large amount of work is undertaken and is reported back to the Committee on a regular basis. The basis of the recommendations in this report are around the project plan, as it is the opinion of the auditors that it could have been better prepared.

- In regards to the first recommendation, it was decided that a timeline could be added to the front of future Change & Transition reports, with a narrative detailing any changes made and their reasoning. This is to start after the formal announcement of the new vesting date.
- In regards to the second recommendation, there are difficulties around the timeline. Attempts to put plans in place that are certain to change is difficult, and the focus is being on reactive and responsive. This does not equate to uncontrolled or unmonitored, and detailed specifics are planned wherever possible. The Change Oversight Group (COG) almost exclusively looks at staff engagement.
- In regards to the third recommendation, it was noted that there is a Change Support Team within COG. This Team meets every week to review the project log and action list.

Action:

- **Cath Denholm** to ensure that future Change & Transition reports (after the formal announcement of the new vesting date) include an updated timeline and detailed narrative of changes.

The Committee noted the report, and are happy with the controls that are in place.

David Crichton noted his unease around the possibility of being audited against the management of change to PHS, as the outcome of the change is something the Board has no control over.

10. Review Progress in implementing outstanding audit recommendations

Andrew Patience advised that there were two outstanding recommendations from the November 2018 meeting relating to the External Audit, and four recommendations from the February 2019 meeting. Each recommendation is covered in the **Information Governance Standards Report**. The four recommendations from February have been adopted and are to be archived, and the remaining two recommendations have future dates in June and will be dealt with as part of the year end accounts at 7 June meeting.

The Committee noted the update, and are content to archive/carry forward recommendations as detailed.

11. Review of occasional reports for relevant issues/items as issued by bodies at 21(o) of the Terms of Reference, to include Additional Relevant Input from Deloitte

Andrew Patience made reference to the **Technical Bulletin Review** from Calendar Quarter 1 (January to March).

There are a number of actions that have been considered over the course of the internal audit, more technical actions will be covered in the year end work in June.

Conor Healy provided an update from Deloitte, including relevant information from reports provided by the **Deloitte Centre for Health Solutions** in Financial Quarter 4 (January to March).

The report provided looks at managing population health in England, and the need to move from ‘treatment’ to ‘prevention’ as being the key to financial sustainability.

The Committee noted the contents of the report.

12. Counter Fraud – Annual Report

Andrew Patience spoke to the report.

The Fraud profile at HS is very low. In the last paragraph of the report, it is mentioned that the National Fraud Initiative in Scotland identified a match between a supplier and HS staff member. This match ended up being a conflict of interest rather than fraud, but it had never been formally recorded.

The Committee noted the information in the report, as well as the enclosures.

13. Procurement – 6 month update report

Andrew Patience spoke to the report.

National Boards’ collaboration

Participation in the National Boards Collaboration has been challenging thus far. The National Boards Internal Shared Services Transformation (ISST) programme has been tasked with producing a report that sets out the steps required to deliver the Procurement Work Stream’s Target Operating Model (TOM), as well as identify savings opportunities as part of an analysis across all eight National Boards.

Corporate Services: Procurement Workstream

The Procurement Workstream is being chaired by Matt Lowther. It will provide a detailed portfolio of what will be required to support PHS in delivering its aims.

Tender waivers

There's an unusually high number of tender waivers. Five are to do with Minimum Unit Pricing (MUP) research suppliers, and six are for Scottish Mental Health First Aid Training, of which there are only six qualified HS Trainers. The Chair asked for assurance around MUP waivers.

Action:

- **Andrew Patience** to investigate the broader issue of why there are only six HS certified Scottish Mental Health First Aid Trainers and how that is impacting on procurement.
- **Andrew Patience** to provide assurance to the Committee that HS is mindful of the number of waivers surrounding MUP/MESAS work and are confident HS cannot be accused of breaking procurement rules.

The Committee noted the report.

14. Information Governance and Business Continuity Group Annual Statement of Assurance

Cath Denholm spoke to the statement.

The statement of assurance is positive overall, but there are a couple of things for noting:

- There are no alternatives for the registration fee for the Information Commissioner's Office.
- Governance concerns that have been raised by staff throughout the year are described in the document.

It was noted that, while it's important the Committee receives sufficient information from the Information Governance and Business Continuity Group, the amount of detail found in the appendixes wasn't wholly necessary, and the report could be simplified by reducing it.

Action:

- **Allan Wilson** to arrange for an internal IT lead to speak with Duncan Robertson about how to minimize the information within the assurance statement and agree a level of consistency.

The Committee approved the Annual Statement of Assurance to be a part of the Annual Accounts process.

15. Any other business

There was no further business.

16. Issues to report to next Board Meeting

The Chair will comment on the Finance paper, and if needed provide the Committee's comment on the Governance paper based on how it looks at that time.

17. Effectiveness of business

A concern was raised that the Committee has been deflected from their day to day business due to transition issues, especially now that the transition period has been extended.

David Crichton noted that in terms of this meeting, the Committee had asked to see the paper on transition issues and the discussion that flowed from it was important. For meetings going forward, David was in agreement that agendas should not be dominated by transition items.

Actions:

- **Andrew Patience and Cath Denholm** to feed back to Gerry that going forward, agendas for all Committees should give due attention to the day to day business, and not be dominated by transition issues.

- **Andrew Patience** to feed back to Gerry that the Annual Governance Statement should include the Impact of Transition.

18. Draft agenda for next meeting

The Committee noted the draft agenda for the 7 June 2019 meeting.

19. Date of next meeting:

7 June 2019 – 10.30am – Room 23 – Gyle Square