



Draft Minute - AC Min 04/19

Audit Committee

Minute of Audit Committee

Friday 6 September 2019 at 11.00am
Room 5.5, Meridian Court, Glasgow

Members present:

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

In attendance:

David Crichton, Health Scotland Chair
Gerry McLaughlin, Chief Executive
Cath Denholm, Director of Strategy
Andrew Patience, Head of Finance and Procurement
Della Thomas, Executive & Governance Lead
Karlyn Watt, Deloitte
Tony Gaskin joined the meeting during item 5
Marie Kerrigan (minute)

Apologies:

Michael Craig, Employee Director

1. Welcome and apologies

The Chair welcomed everyone to the meeting.

2. Declaration of Committee Members' Interest

Russell Pettigrew declared his appointment as a member of Scottish Social Services Council as of 1 September 2019.

3. Minute of previous meeting

The minute of the previous meeting held on 7 June 2019 was approved as an accurate record subject to the following amendments:

- In attendance: “Russel” should read ‘Russell’
 - Page 2, item 4, under Andrew Patience to provide.... “Afger” should read ‘after’
 - Page 3, item 8, para “The report concludes..... “statmenets” should read ‘statement’.
- Page 3 – item 8 last paragraph, first line, “dissolution” should read ‘suspension’.

4. Matters Arising (Action List)

With the following amendments the action list was noted as complete.

- **Action** from 26 April
‘Alan Wilson’ should read ‘Allan Wilson’
- **Action** from 7 June 2019
An action was omitted from the action list as follows:
 - “David Crichton to meet with Board members before the May meeting to inquire about their willingness to extend their appointments” - **complete**

**5. Change and Transition Update Report
(AC Paper 28/19)**

Cath Denholm, Director of Strategy, indicated that the method of reporting had been changed with one report being produced at the start of each month.

Highlights:

- Section 3 gives an update on the ongoing Public Health Reform Commissions and projects.
- A Finance Steering Group was set up under the auspices of Public Health Reform reporting into the Programme Board.
- NSS will provide 5 shared service areas including finance and procurement. Cath indicated that she is EMT functional lead for finance and procurement.
- An internal NSS Finance Transformation Group has been established looking at the redesign of finance and procurement services within NSS and Cath will sit on this group as customer representative for PHS.
- It is proposed the original Finance Steering Group be reconfigured as a Finance and Procurement Delivery Group. Cath Denholm is chairing this group on behalf of PHS.

Cath reported that EMT had agreed a paper on the roles around corporate governance, strategic decision making and intelligent customer role that Public Health Scotland would need to undertake with regard to the 5 corporate services areas being provided through a shared services route. The EMT had also noted that Health Scotland propose transferring 15 posts in line with the services transferring from Health Scotland to NSS, and not to PHS.

It was agreed a conclusion should be included at the end of the report on 'risk'.

Action:

- **CD** to include a section on risk at the conclusion of future reports

It was noted that Jim McGoldrick had requested that we should be mindful of entering into any major commitments, financial or otherwise, that might constrain PHS in the future.

The Committee noted the update.

6. **NHS Health Scotland Draft Board Governance until Dissolution
Priority Action Plan
(AC Paper 29/19)**

The Audit Committee was invited to consider whether the Action Plan (Appendix 1) gives sufficient assurance of good governance of NHS Health Scotland (NHSHS) business and associated risks until the Board's dissolution on 31 March 2020 and if they were happy to recommend this to the Board.

In introducing the Action Plan, Della Thomas reminded members that the first two areas of the action plan were agreed at the May Board meeting. Since then other Board and Committee meetings have generated other areas, which are included within the action plan as numbers 3-5.

The May Board meeting identified a potential risk of PHS not vesting by 1st April.

The Committee noted that the process for the appointment of the non-executives hadn't begun, but there is a schedule agreed for this to be progressed with the Public Appointments Units. Interviews are likely to take place in January. The appointment of the CEO has yet to be announced. It was noted that PHS will be allocated a non-executive whistleblowing Champion as part of a different appointment process.

The risk to delay in PHS vesting has not been included in the NHS Health Scotland Action Plan, as it is considered a Scottish Government and COSLA risk. The Committee agreed with this approach.

Ms Thomas reminded the Committee of the internal and external audit reports they considered at their June meeting when the suspension of the Health Governance Committee (HGC) was discussed and risks that this might pose to the Board's good governance through to 31 March 2020. The Committee at that time, also discussed the importance of achieving the right balance of Board "business as usual" governance, as well as the governance of change and transition. She highlighted that these issues had been picked up under items 3 and 4 of the action plan along with approaches to mitigating these issues.

Ms Thomas went on to refer to the emerging risk discussed at the June Board, relating to the establishment of the PHS Shadow Executive Management Team which could potentially lead to conflicts in accountability. A risk has been added to the NHSHS corporate risk register and number 5 of the action plan refers to this

Mr Gaskin commented that this was a robust action plan that picked up the issues from his perspective.

Members agreed with this and advised that no amendments were required to the Action Plan and that this should now be recommended to the Board for approval.

Action: Ms Thomas to take this out of draft form and bring to the September Board.

7. **Audit Committee Transition Issues**

Conditional view on change to delegated financial authority in relation to Remuneration Committee business (Verbal – Audit Chair)

The Chair indicated that the changes to the Remuneration Committee business put forward are designed to recognise the different focus the

Committee would be taking in the run up to the dissolution and also keeping its processes in line with best practice. Included in the proposal is the possibility that the Chief Executive's delegated authority for redundancy settlements, which currently sits at £100k, might be changed. On doing some benchmarking Della Thomas indicated that Boards vary redundancy settlements between £50k and £75k.

Russell explained that as the Committee didn't meet until November, he was keen for the Committee to discuss and agree Health Scotland's delegated authority for redundancy settlement.

The Committee agreed to support any change put forward as long as it sits within £50-100k.

**8. Review of 4 month financial position (includes 3 month Q1 comparators on key items)
(AC Paper 30/19)**

Mr Patience explained that there had been a slight change to financial reporting.

Key points:

- There was a small underspend after 4 months of 6k due to project timing
- y/e forecast at July was a £6k surplus, with the June (Q1) y/e forecast being £14k so there was little change.
- The Government indicated NHS boards would be funded for the pay award and for the additional employer pension contribution which would increase by 6% this year
- we received £237k last year for the pay award, being the element above 1% as we were expected to fund the first 1% ourselves (in common with other non-patient facing boards) but we were only funded £200k this year.
- Employer pension contributions were underfunded by £84k as the additional pension contributions were based

on actual staff costs in 2018/19 which were low for Health Scotland .

- The staff vacancy factor over the first three months continues at the same level as last year which is high and meant we were able to fund deferred project expenditure based on a revised vacancy factor for this year only of around £393k as noted in the report
- Against the £15m savings target across the national Boards there was a shortfall of £2.3m in 2018/19 and a recurring shortfall of £3.8m this year. The £2.3m would be carried forward as a non-recurring target in addition to the £3.8m recurring shortfall this year. Health Scotland had contributed more than its fair share towards the £15m and would not be contributing further other than self-funding changes.
- Surplus from last year was £343k (Allocation letter received and figure confirmed to c/f into this year).
- Under new arrangements 2019/20 was the first year of three where there was flexibility of +/-1% to baseline provided a break-even position was achieved over three years.
- Against our financial plan of a baseline of £19.0m we are at £18.9m due to the funding shortfalls above.
- Non-recurring funding is at £1.8m being around 10% of our baseline funding but is expected to increase slightly.
- The staff savings target (mainly due to no baseline uplift) and underfunded pay and pension contribution is now £391k but is £70k short at present.
- Overall we are on target to break-even but further savings are needed over the remainder of the year.

The Committee felt the content and the new style of the report was excellent.

The Committee noted the update.

**9. Review risk register and actions taken to mitigate risk
(AC Paper 31/19)**

In introducing her paper Cath Denholm explained that this paper follows the same format as previous but the risks have been slightly amended, taking on board comments in relation to 19.1 and 9.3.

Russell Pettigrew pointed out that risk 19.2, action plan, addresses the issue of staff resources being insufficient, but doesn't deal with the risk of a shortage of senior management resources.

It was noted that on risk 19.3, page 7, the Public Health Oversight Board (PHOB) no longer meets and therefore Mr Crichton no longer represents the Board on this.

Action:

- Cath Denholm to capture the actions to address the risk to senior management resources in future updates

The Audit Committee considered risks 19-1, 19-2 and 19-3 on the Corporate Risk Register (CRR) and were suitably assured by the actions taken to mitigate these risks.

10. External Audit update/reports (verbal)

Karlyn Watt, Deloitte, reported that she will bring her formal audit plan to the next Committee meeting in November.

The main focus will be around the transition for this year.

**11. Internal Audit Plan 19/20
(AC Paper 32/19)**

Tony Gaskin, Internal Auditor, indicated that a statement will be presented to the March meeting on the adequacy and effectiveness of internal controls.

It was noted that the Remuneration Committee will meet on 14th February, Staff Governance Committee on 28th February and Audit Committee on 6th March. All committees will produce their final report in time for the Audit Committee so they can be submitted to the last Board meeting on 20th March 2020.

Action:

- invitations for RC, SGC and AC to go into calendars.

Mr Patience indicated that the Audit Committee will consider a 10 month position as of 31 January at their meeting on 6th March.

The Audit Committee noted and approved the plan.

**12. Review progress in implementing outstanding audit recommendations
(AC Paper 33/19)**

There were 3 recommendations from April 2019, and a further 3 recommendations were received.

The Committee endorsed the 6 recommendations for archiving.

A question was raised as to where the outstanding recommendations to be handed to Public Health Scotlandover would be logged. Mr Patience confirmed that they will not appear in our routine report to this Committee because they will be logged elsewhere as part of the handover package. It was felt this should also be logged with the sponsor team.

Action:

Agenda item for next meeting.

The Committee noted the report.

13. Review of occasional reports for relevant issues/items as issued by bodies at 21(o) of the Terms of Reference (AC Paper 34/19)

Highlights:

- Health Scotland was in CNORIS which is the Clinical and Other Risk Indemnity Scheme
- Counter fraud Integrity Group - we work closely with the counter fraud services.
- Planning for outcomes will be dealt with in due course – to note we may have an issue on planning in connection with external audit.

An Audit Scotland report “NHS workforce” was recommended to the Committee.

The reports was noted.

14. Any other business

There was no further business.

15. Key Items for next Board meeting – Chairman

- supporting item 6 on the dissolution action plan and comment on the delegated authority for the chief executive through ToR
- sequencing at the end to be highlighted to the Board.

16. Effectiveness of meeting

It was suggested that the length of meetings could be reduced as we move towards dissolution.

Action:

- Endeavour to shorten meetings.

17. Date of next meeting: 15 November 2019, Gyle Square, Edinburgh.

18. Draft agenda for next meeting: 15 November 2019

DRAFT