



Draft Minute - AC Min 05/19

Audit Committee

Minute of Audit Committee

Friday 15 November 2019 at 10.30am
Room 23, Gyle Square, Edinburgh

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
Allan Wilson, Auditor
Rebecca McConnachie, Deloitte
Pat Kenny, Deloitte
Lesley MacDonald (minute)

Apologies:

Michael Craig, Employee Director
Della Thomas, Executive & Governance Lead

1. Welcome and apologies

The Chair welcomed everyone to the meeting.

2. Declaration of Committee Members' Interest

There was no declaration of interest relevant to this meeting.

3. Minute of previous meeting

The minute of the previous meeting held on 6 September 2019 was approved as an accurate record subject to the following amendments:

- Page 5 – bullet point 5, second sentence: change “wodul” to “would”.

4. Matters Arising (Action List)

Action list was noted as complete.

5. **NHS HS Internal Change and Transition Update Report (AC Paper 35/19)**

Cath Denholm, Director of Strategy, spoke to the report and advised that a high level overview of CRR in the context of Change has been added at the end of the report.

Key points:

- CEO designate begins in post on 27 November.
- Consultation on TUPE 2 transfer has now gone live.
- Matching process for Senior Management team within PHS has begun.
- Results of the Desktop Exercise will be circulated to staff within November.

The Committee noted that all of the above will cause a level of unsettledness for all staff which will take up a good amount of leadership energies and it was agreed that there is a need to manage and prioritise carefully to ensure supportive leadership.

The Committee raised their concern on the impact of these developments for senior management team staff while they support staff as well as ensure that work is carried on as usual. The Committee emphasises that there is a need to ensure the wellbeing and fair treatment of the senior management team.

Ali Jarvis advised that the above is firmly on the Staff Governance Committee's agenda and the timings of their meetings is to ensure in-depth discussions can take place on these issues.

Ali Jarvis noted a risk around accountability. Given decisions are being taken before CEO Designate begins in post, there is a concern regarding clarity of accountability and governance. Although Mr McLaughlin advised that the Public Health Reform Team remain conscious of accountability for decisions taken during this time by ensuring sign-off by senior responsible officers within COSLA and SG, the Committee still felt that there is a high level risk for potential financial exposure and also around good staff governance given the impact on staff.

Ali Jarvis advised keeping Board members informed at each stage of decisions that are being made. One part of this would be receiving the regular PHS updates (originally the EMT update but has now been upgraded and is now known as the PHS update).

Action:

- **CEO** to ensure Board members are sent the PHS update at the time of publication.

The Committee noted the update.

6. **Review of 6 month financial position and year end forecast update
(AC Paper 36/19)**

Andrew Patience spoke to this report.

Key points:

- As at 30 September there is an underspend of £55k against the 6 month budget of £10,360k.
- Increase our vacancy target by 2.5%, from 6.75% to 8.25% which is proving very challenging.
- The £55k underspend against the phased budget consists of an overall overspend of £20k on staffing and an underspend of £75k on projects.
- y/e forecast is at break even for the year.
- The Board's 2019/20 RRL as advised in the 1 October allocation letter from SG was £20,699k which includes a baseline of £18,896k and non-recurring allocations of £1,803k
- The £75k saving within projects is mainly due to timing.
- Staff variance: we are expecting to achieve £320k of additional staff savings/secondment income rather than the £384k that was predicted in June leaving an overspend on salaries of £64k
- There remains a risk in 2019/20 with the shortfall for the Collaborative National Boards efficiency savings target of £15m which HS will need to monitor.
- National Boards are contacting the SG seeking a more definitive savings plan. Outcome of this communication has yet to be received.
- Under current SG guidance, there is scope for 1% flexibility each year providing over 3 years we balance.
- Overall we expect year-end to be close to budget albeit further savings are needed over the remainder of the year.

Having identified a modest risk of overspending Andrew Patience advised that there is not much corrective action needed. CMT are actively managing our resources to remain within budget so as not to pass on an overspend to PHS.

The Committee do not feel there is a problem because of the processes put in place throughout the year that have been noted in the minutes of the previous meetings of the Audit Committee.

The Committee noted the report.

7. **Review Risk Register and actions taken to mitigate risk (AC Paper 36/19)**

Cath spoke to the CRR update: risks 19.1, 19.2 and 19.3.

The Chair advised that although 19.2 adequately describes how staff issues are being dealt with around the pressures arising, it does not cover the pressure for senior management which is now arising very clearly. It is mentioned in risk 19.3 around the context of conflict of interest but this does not adequately cover the extent of the pressures that senior management staff will deal with in the next few months. Looking at this more closely, there are two risks: (1) senior managers will be expected to do work which may conflict with one or other of the organisations involved; and (2) time pressure on senior management staff.

Cath Denholm replied that although she recognises the risk, she is not aware that this is a major issue. Although senior staff are definitely busy, it is fortunate that there is a good infrastructure of supporting staff. Ms Denholm assured the Committee that Senior management are keeping a close eye on these risks.

Gerry McLaughlin added that actions are being taking by senior management to alleviate these risks by managing and applying flexibility to processes (for example, reorganising senior team meetings), reprioritising work, as well as looking at how we use the resources available to us. Discussions have also been held with the Sponsorship Team around prioritising the work within the programme teams and rescheduling timetables.

Ali Jarvis noted that in risk 19.2 we talk about resource around staff capacity/time in terms of controls. What has not been captured is that decisions made by the PHS may have a liability for HS resulting in unbudgeted liabilities for HS.

Action: Cath Denholm will factor the above concern into Risk 19.2.

Paul Stollard advised that he feels the scoring of risk 19.1 is too low given external pressures (eg, General Election) which could have a knock-on effect for our funding. Mr Stollard advised putting in a measure to look at the commitments made in the /Delivery Plan 2021 and reducing them (or add non-urgent commitments to a 'watch' list).

Gerry McLaughlin advised that for PHS, much of their operational plan for 2021 will derive from the work being done by HS and PHI. There is currently a robust approach in place which HS is contributing to and is being led by Diane Stockton. This has identified a need from both organisations to continue to work through what a continuation of an operational plan will look like.

Responsibility for the sign off of the completed operational plan will be negotiated with the joint sponsor team and the Executive Management Team [non-Shadow], with the expectation that they will take the Plan to the first meeting of the PHS Board. HS have been clear in our advice to the PH Reform Team and the CEO Designate that a lot of the engagement to deliver a strategic plan has already been done and the priority for the new organisation within the first 6 months will be in shaping the strategic plan. This will then be the basis for the Delivery Plan for 2021.

The Committee agreed that the risk should still sit higher than it does at the moment given the time pressures that the work above will involve.

Action: CMT to revisit the scoring of risk 19.1 on the basis of the advice from the discussion held with the Committee. The **Chief Executive** will then write to the Chair to advise on action taken and the Chair will then share with the other members of the Committee.

Action: Chief Executive: if this risk level does rise then CE should formally alert the Sponsor Team or PHS to flag up the Committee's concern and to assure that everything is being done to mitigate and manage this risk.

The Committee noted that further discussion on these issues will be taking place at Board meeting next week.

The Committee noted the CRR report.

8. **External Audit Plan 2019/20 (AC Paper 39/19)**

Rebecca McConnachie, Deloitte, spoke to the formal audit plan for 2019/20 outlining risks and noted that where the risks are due to the transition of the new public health body, caveats have been added in throughout the plan to cover the risks.

Mr Patience added a few points:

- IFRS 16 – draft disclosure will be brought to the Committee in March;
- Preparation of draft financial statements with year-end forecasts (with a caveat to note that figures will obviously change for the March Audit Committee). This is to ensure the Committee are sighted on what the draft annual accounts might look like.
- Currently working with NSS to negotiate flexibility on the TUPE transfer of Finance Staff given their year-end responsibilities. Mr Patience will come back to the Committee in March with confirmation of this.

- Pat Kenny advised that a pragmatic approach will be taken in relation to the wider scope work given the transition to a new body. In relation to financial sustainability, Deloitte will look at the transition to a new body rather than the medium and longer-term planning for NHS Health Scotland for obvious reasons..

Gerry McLaughlin advised that he and Andrew will correspond with the shadow EMT and CEO Designate and the Sponsor team to acquire a commitment on resource to complete year end work in order for us to discharge our responsibilities for the remainder of the year.

The Committee agreed the intention to use the “small body” clause, as set out in the Code of Audit Practice which allows for narrower scope work to be carried out.

Audit Committee noted the Plan.

**9. Health & Sustainability Annual Report for 2019
(AC paper 39/19)**

Andrew P spoke to the detailed report from Phil Mackie bringing Table 2 to the attention of the Committee.

The Committee noted the information in this Report.

**10. Procurement Biannual Report to 30 September 2019
(AC Paper 40/19)**

Andrew P spoke to this Report giving an update on our procurement activities and waivers over the last 6 months.

Mr Stollard asked that future reports to the Audit Committee does not need to have this level of detail.

The Committee noted the upcoming change of the service moving from SAS to NSS.

The Committee noted this Report.

**11. Review progress in implementing outstanding audit recommendations
(AC Paper 41/19)**

The Committee note that there are no outstanding audit recommendations.

The Committee noted that the 5 recommendations from the 2018/19 External Audit will be referred to the new public health body as stated in the report.

12. Review of occasional reports for relevant issues/items as issued by bodies at 21(o) of the Terms of Reference (AC Paper 42/19)

Andrew Patience spoke to this paper.

Ali Jarvis advised that there is a new document: "Guidance on Settlement and Severance Arrangements" that should be issued to the Audit Committee so that members are sighted on the Guidance. The Committee noted that this is on the agenda for the next meetings of both the Staff Governance and Remuneration Committee.

Action: Andrew Patience to email the document to Audit Committee members.

Mr Pettigrew asked that a change be made to the document on "HS impact of the NHS report" in terms of NHS in Scotland 2019. The sentence beginning "Territorial boards face a number of national challenges..." to be changed to "The Auditor General report noted the financial pressure under which all NHS Boards operate".

Action: Andrew Patience to amend this sentence.

The reports were noted.

13. Draft agenda for next meeting: 6 March 2020

Andrew Patience advised the Committee to note that, because this will be the last meeting, the agenda includes year end/final reports that will be covered in the next meeting.

Mr Stollard advised that there is a need to include an item on the future of the Healthy Working Lives initiative within PHS. This initiative is included within the Health Budget commitment to the Territorial Boards.

Action: Mr Patience to contact Mr Dodds to report to next Audit Committee meeting on what is proposed for 2020/21.

Action: CEO – re-look at agenda for the next meeting and drop items not required, for example C&T update which will be discussed at Board meeting anyway.

14. Any Other Business
No other business

15. Key items for next Board meeting – Chairman

- C&T update
- Financial position and external influence
- Audit Plan agreed

16. Effectiveness of meeting

Thank you to Lesley for stepping to take in the notes of meeting.

17. Date of next meeting: 6 March 2020, Gyle Square, Edinburgh.

DRAFT