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MINUTE of MEETING of the NHS Board Audit Committee Board Room, Assynt House	25 February 2020 2.00pm	

Present: Mr Alasdair Christie, NHS Board Non-Executive (In the Chair)
 Mr Alexander Anderson, NHS Board Non-Executive (VC)
 Mrs Ann Clark, NHS Board Non-Executive
 Mrs Ann Pascoe, NHS Board Non-Executive

Also Present: Mr Boyd Robertson, Chair NHS Highland
 Dr Boyd Peters, Board Medical Director

In Attendance: Mr Iain Addison, Head of Area Accounting
 Mr John Boyd, Grant Thornton
 Mr Chris Brown, Scott Moncrieff
 Ms Charlotte Craig, Business Improvement Manager (VC until 2.30pm)
 Mrs Ruth Daly, Board Secretary
 Mr D Eardley, Scott Moncrieff
 Mr David Garden, Interim Director of Finance
 Miss Leah Girdwood, Board Committee Administrator
 Ms Fiona Hogg, Director of Human Resources and Organisational Development
 Miss Stephanie Hume, Scott-Moncrieff
 Ms Deborah Jones, Director of Strategic Commissioning, Planning and Performance (Item 3.1)
 Ms Joanna MacDonald, Chief Officer (Argyll & Bute) (VC from 2.30pm)
 Mr David Park, Chief Officer (North Highland)
 Mr Donald Peterkin, Data Protection Officer (Item 3.1)
 Mrs Christine Thomson, Board Committee Administrator

1 WELCOME, APOLOGIES AND DECLARATION OF INTERESTS

Apologies for absence were submitted from Heidi May, Gaener Rodger and Paul Hawkins.

Members were asked to consider whether they had an interest to declare in relation to any item on the Agenda for this meeting. The following declarations were made:

Mr A Christie advised that being an elected member of the Highland Council he had applied the test outlined in paragraphs 5.3 and 5.4 of the Code of conduct and concluded that this interest did not preclude his involvement in the meeting.

The Committee **Noted** that the meeting would be audio recorded for administrative purposes and that the recording would be deleted once the Minutes had been completed.

2 MINUTE OF MEETING HELD ON 20 JANUARY 2020

The minute and action plan of the meeting held on 20 January 2020 were **Approved**.

The Committee:

- **Approved** the Minute of the meeting held on 20 January 2020.
- **Noted** the rolling action plan.

3 MATTERS ARISING

3.1 GDPR Update

Donald Peterkin advised that self-assessments had been issued to 13 named individuals in various areas in the Board with a closing date of 28 February. Of the five self-assessments received to date, three were ready to be reissued with action plans to the areas including any learning points.

No major issues had been identified to date with emphasis being on smaller learning points which with some commitment from the areas should be easy to resolve. Any common themes would be fed back through the organisation for learning purposes.

It was noted that while the current risk for the organisation was high, after the pilot assessment on South and Mid the risk had reduced in the area. The pilot area were still working on their action plan which was due 28 February 2020 and which should further reduce risk. It was agreed that Donald Peterkin keep the Chair advised by e mail whether appropriate progress was being made and identify any issues. It was further noted that this would also be reported through the Executive Directors Group (EDG).

The Committee Noted the update.

4 INTERNAL AUDIT

4.1 Internal Audit Progress report

There had been circulated a copy of the progress report which summarised Internal Audit work undertaken up to 11 February 2020.

It was noted that good progress had been made against the annual audit programme and that internal audit were on track to deliver the Internal Audit plan for 2019/20 by June 2020. The Business Continuity Planning report and the IT Service Redesign report would be presented to the Audit Committee in May 2020.

The Committee Noted the Internal Audit Progress Report.

4.2 Individual Reports for consideration

4.2.1 Counter Fraud

Stephanie Hume spoke to the circulated report which focussed on NHS Highland compliance with best practice and national requirements. It was noted that David Garden and Gaye Boyd were the sponsors for the audit. Areas of good practice were identified including that a Counter fraud policy was in place and training was available. However, a number of areas of improvement had been identified. She highlighted in particular that no formal fraud risk assessment had been undertaken within the organisation. The management response provided noted this is due to be completed by March 2021. Stephanie Hume also highlighted that a formal counter fraud training and awareness programme had not been put in place. Training was available on LearnPro but it was not mandatory and only 3.5% of staff had undertaken the training. This was augmented by staff not having an understanding of the key policies and a lack of clarity regarding roles and responsibilities. Improvements were also identified in relation to the fraud policy, ensuring it is up to date and reflects current practice, and fraud cases are handled in line with agreed procedures.

During discussion, Ann Pascoe highlighted that the monetary value of fraud cases in the Highland Board was small compared with the rest of Scotland. She queried if this was an area of concern. Chris Brown confirmed if the number of cases is considered proportionally lower than other Boards this should be an area of concern, particularly in relation to counter fraud training. Iain Addison noted that the number of potential fraud cases investigated by CFS on behalf of NHS Highland was in proportion to the size of other Boards.

With regards to training, Alexander Anderson questioned when training action would begin and whether all staff would be trained on counter fraud. Fiona Hogg advised that a phased approach had been suggested together with a short LearnPro module which would be mandatory for all staff but recognised a formal plan would be required to implement this.

The Chair acknowledged there were issues around risk assessment, training, policies and communication and stressed that these needed to be addressed. He suggested a list of the common themes highlighted by Internal Audit reports could be compiled and used to help support development throughout the Health Board and requested that counter fraud should be a substantive item going forward to keep the Committee aware of progress.

After discussion, the Committee

- **Noted** the report findings
- **Agreed** counter fraud should become a substantive item for Audit Committee

4.3 Internal Audit Plan

Chris Brown spoke to the previously circulated updated draft internal audit plan for 2020/21.

He highlighted the need for the internal audit resource to be as useful as possible. He reminded members of the definition of internal audit being to provide an Independent objective assurance and consulting activity. The aim was to provide assurance to the Board through Audit Committee that processes and controls were in place to manage key risks and

achieve objectives and that these process were working well. In addition internal audit provide assistance to management in improving services.

It was noted that the 450 day plan should provide as much added value as possible. The draft plan previously circulated set out areas which had been previously been suggested and comments were welcomed on areas for focus or priority. It was noted that this would be further discussed with EDG.

The Chair considered that focus should be on supporting aims of getting to the destination in terms of descending the ladder of escalation and preparing processes and plans to meet matters highlighted in the Section 22 Report. He considered that internal audit should be used in a wider way to demonstrate that financial responsibilities were being met and targets and efficiencies being made.

Chris Brown confirmed that reviews had been completed in the past to make recommendations for improvement following a consultancy "critical friend" style and that this could be done again.

Ann Clark queried whether NHSH devoted a smaller proportion of its resource to internal audit than most other Boards. It was noted that 450 days is within a reasonable range but at the lower end of the range. Ann Clark requested a management view on whether there was a need for additional resource. David Garden suggested that when this went to tender, other boards were assessed in comparison and NHSH was not far from the norm and that some other boards with more input days may use less qualified individuals. It was noted that when originally awarded the contact was for 500 days. It was stressed that if any additional days were requested from Internal Audit it was important to look at how the days are used to ensure they are aligned to key risks and priorities. The need to provide evidence of action to PAPLs was provided as an example and it was noted that a section 22 action plan was being developed.

On a query from Alex Anderson as to why the allocation of audit days to financial systems were low it was noted that financial systems already receive a considerable amount of audit scrutiny from External Audit on an annual basis in addition to any Internal Audit work and given the finance teams are aware of this process, strong systems of control are often maintained which lead to less issues being identified.

On a query in respect of the 2022/25 plan, it was noted that a 3 year plan was developed which was refreshed every year, with another 3 year plan being developed at the end of the 3 years.

It was agreed that the views of the EDG should be sought and these be shared with the Committee. Boyd Robertson stressed that spotlight was on Highland and that it would be useful to show that any increase in audit time had been directed towards particular areas. Additional days should be targeted to areas requiring improvement which would provide assurance to Government and select committees reviewing NHSH.

David Park suggested that the total number of outstanding actions should be considered when discussing adding additional audit days as while management were beginning to respond to actions, they still required clearing. The Chair noted again that any additional Internal Audit resource would be targeted and would likely not result in standard audit actions but aid the Board moving forward. It was noted that internal audit could be used to the Board's benefit by providing an independent view to look at progress made and benchmark. David Garden stressed that an internal follow up system had been agreed and it was noted that if the follow up situation could be improved then the number of audit days allocated to follow up could be used more usefully.

The Committee Agreed that further discussion on the Audit Plan take place at EDG

4.4 Follow up report

David Garden drew attention to the effort which had been put into audit follow ups since the last Committee meeting and the progress that had been made, stating that the number of outstanding actions had been reduced and work was continuing to make further progress.

Stephanie Hume spoke to the circulated report providing an updated position on the follow up of internal audit actions. She advised that there were 58 outstanding actions, of which 26 were partially complete, 5 awaiting response, 27 not yet due and 16 which were no longer applicable. She noted that some of the due dates had been changed by management on the 27 actions not yet due, but that 13 had not passed their original due date. David Garden explained that the follow ups would be undertaken internally and recruitment for a member of staff to provide dedicated time to this would be carried out in 2020/21. The Chair noted this would be good evidence to provide at the PAPLs Committee to show work was being done within NHS Highland to prevent the issues in the Section 22 report occurring again.

During discussion, Ann Pascoe queried the position in relation to older actions and their relevance. Chris Brown confirmed that everything contained within the report was still relevant as during each exercise management were provided with the opportunity to highlight any which were no longer relevant. David Garden added that older actions were being worked through and due dates were being revised.

Alexander Anderson raised concerns around the amendment of due dates, noting no actions on the report appeared as overdue. Stephanie Hume confirmed that only 13 of the 58 actions had not had the due dates revised and as such the remaining had passed their original due dates set by management, and that the responsible officer would set and review the completion date.

The Chair proposed transferring the outstanding actions identified as risk level grade 3 or 4 to the corporate risk register in order to incentivise resolution. He stressed that every Executive Director would be required to attend the special meeting of the Audit Committee; otherwise the related action would be escalated to the Board. Ruth Daly agreed to contact Executive Directors to emphasise the requirement for resolution, and to arrange the transfer of the high grade actions to the corporate risk register. The Chair recommended that no amendments to due dates be allowed until after the special meeting of the Audit Committee. Stephanie Hume advised most of the actions which were not yet due, would be due in March 2020. It was agreed that extracts from the original audit reports be circulated to allow the full remit of the actions to be viewed.

The Chair queried the actions which were identified as no longer applicable in the report. Stephanie Hume clarified that these were actions which management had been unable to complete and the outcome had been that managers had either chosen to accept the risk, or moved the risk onto a risk register to be managed elsewhere. The Chair proposed this outcome could be used to address some of the actions which had not been clear or not understood by officers.

After discussion, The Committee

- **Noted** the follow up report
- **Agreed** to arrange a special meeting of the Audit Committee before the PAPLs Committee

- **Agreed** Executive Directors should attend the special meeting of the Audit Committee
- **Agreed** to circulate extracts of the original audit report for overdue actions

5 EXTERNAL AUDIT

5.1 Draft External Audit Plan

John Boyd spoke to the draft external audit plan. It was noted they were still awaiting audit fees to be confirmed by Audit Scotland for audit remunerations. The purpose of the paper was to propose the audit fees for 2019/20 to the Committee. He advised the fees related to audit risks with the financial statements, particularly around the valuation of PPE. The plan also reflected the work on the Section 22 report as external audit were expected by Scottish Government to follow up actions raised in the report.

Iain Addison raised concerns over the increased fees for the work on the pension fund, as this work was always required annually. He also noted the PPE assets were revalued annually, and the highest valued assets were revalued more frequently and was unclear as to the requirement for the additional work identified by external audit in relation to this.

Ann Clark sought clarification on whether feedback had been passed to External Audit on the matters raised and whether there was any solution available to prevent extra costs in the future. John Boyd confirmed feedback had been received and a response given. In relation to pensions and valuation of PPE he advised there had been an increased focus from the accounting regulator on external audit work in these areas. External Audit would have to use their own valuation specialist for PPE to provide an independent review of the valuations, noting this increased the risks around PPE. He also advised there was a requirement for an independent review of pensions and Grant Thornton would be required to complete this in-house due to timing issues around the central review, which reflected the additional costs.

After discussion, the Committee Noted the draft External Audit Plan.

6 COUNTER FRAUD

6.1 Update of Fraud Awareness

The previously circulated report on fraud awareness was noted.

The Chair advised that the Annual review meeting had taken place where comparisons could be made with other Boards in Scotland. It was noted that Highland was not out of step in terms of reported cases and that a case had been made for webinar training.

Ann Clark expressed concern as to whether the approach to the impact assessment tool was sufficient or whether a more defined project management approach should be taken to the rollout. It was noted that the tools helped to highlight areas where higher risks are found. It was noted that resource would be pursued with payroll department to address payroll matching as this required to be completed by the end of the financial year.

The Committee Noted the report.

7 RISK MANAGEMENT

7.1 Risk Management and Corporate Risk Update

Boyd Peters informed the Committee that the Chief Executive had decided that the Medical Director would be responsible officer for risk management. Talking to the previously circulated report, he advised the risk management process and corporate risk register appeared to be in an improved state.

The Committee members highlighted a number of amendments which were required to the document such as reference to individuals as risk owners.

It was also highlighted that some risks had multiple Committees noted as risk owners in the documentation. Boyd Peters confirmed there would be a meeting with Louise McInnes, Risk Manager, to discuss the particular risks related to each Committee. The Chair stressed the need for clarification on this as there was a potential for difficulty when sharing information relating to risks with Committees. He also suggested that risk owners should be job titles rather than named individuals to prevent confusion and errors when individuals move on or organisation restructures take place. Alex Anderson queried the need for involvement of Committees when decisions on risks are made by the Risk Management Steering Group. Chris Brown confirmed the purpose of the discussion of risks at Committees was to provide assurance and oversight.

The Committee Noted the update.

8 FINANCIAL GOVERNANCE

8.1 Draft Accounting Policies

Speaking to his previously circulated report, Iain Addison highlighted changes to this year's report in respect of new International Financial Reporting Standards that apply to NHS Boards, noting the most significant change was IFRS16 which related to leases. He advised this would be formally adopted in April 2020 and work was ongoing for the implementation of this.

The Committee Noted the draft accounting policies and **Agreed** to adopt them.

9 AUDIT SCOTLAND

The Committee Noted the following reports highlighted from the Audit Scotland website:

- The 2018/19 audit of NHS Lothian, 18 December 2019 – Delay to the opening of the Royal Hospital for Children and Young People
- Preparing for withdrawal from the European Union, 16 December 2019
- Children and Young Peoples Commissioner Scotland Annual Audit report 2018/19, 1 December 2019

The Committee Noted the highlighted reports.

10 ANY OTHER COMPETENT BUSINESS

There was no other competent business.

11 DATE OF NEXT MEETING

The Chair noted a special meeting of the Audit Committee was to be arranged before the PAPLS Committee meeting with the next scheduled meeting of the Audit Committee being held on **19 May 2020 at 2.00pm** in the Board Room, Assynt House, Beechwood Business Park, Inverness.

The meeting closed at 4.00pm