

NHS HEALTH SCOTLAND

**Minutes of the Audit Committee meeting
held at 2.00pm on Friday 16 October 2009
in Meeting Room 1, Thistle House
91 Haymarket Terrace, Edinburgh**

Present: Mr H Robertson (in the Chair)
Mrs J Fraser
Mr R Pettigrew
Mr G Wilson

In attendance: Ms K Hetherington (Items 7 and 8)
Ms L Paterson, PricewaterhouseCoopers
Mr P Wood, RSM Bentley Jennison
Mr S Hallsworth, RSM Bentley Jennison
Mr A Crawford
Mr J Cameron

ACTION

1. Apologies

Apologies were received from Prof J Webb, Ms M Burns and Mr G Robertson.

2. Minutes of previous meeting

The minutes of the Audit Committee meeting held on 7 August 2009 were approved.

3. Matters arising

3.1 Plans to combat fraud (Item 4.1)

Mr Crawford reported that staff counter fraud sessions had been arranged to take place on 26 and 27 October, and 3 and 5 November 2009.

3.2 Environment Management and Climate Change Mitigation Policy (Item 4.3)

It was noted that the staff consultation had ended on 30 September 2009. The policy was to be finalised and approved by the Partnership Forum and, prior to this, advice would be sought from Prof Jan Webb (Health Scotland's Sustainability & Climate Change Champion). Mr Crawford, Mr Swanson (Estates & Facilities Manager) and Professor Webb had met and arranged regular meetings, around Audit Committee or Board meetings.

DRM/JW

ACTION

3.3 Draft Annual Accounts for year ended 31 March 2009 (Item 4.4)

It was agreed that the issue regarding the wording of the pension page in the 2008/09 Annual Accounts be revisited, if necessary, when drafting 2009/10 Annual Accounts.

DRM

3.4 Audit Committee's draft annual report for 2008/09 (Item 4.5)

The Committee recalled that the italicised responses, contained in the Appendix, had indicated potential areas of activity for the Committee in 2009/10. In reviewing these responses, Mr Cameron indicated that those contained on the first two pages related to risk management and would be addressed by the Audit Committee's review of risk registers.

On page 5, Item 7A, the Audit Committee considered how to evaluate its effectiveness in achieving its terms of reference and add value to corporate governance and control systems of the organisation. Mr Wood indicated that a new Scottish Government Audit Committee Handbook had recently been published and he undertook to provide a brief in due course, which could feed into the Audit Committee's terms of reference.

BJ

With reference to including an agenda item relating to 'Register of Committee Members' Interests: update' (page 5, Item 7E), it was agreed that this should commence from the next Audit Committee meeting.

EC

3.5 Foreign Travel (Item 4.7)

Mr Crawford advised that, following the Corporate Management Team's consideration of a paper from the Head of International Development, Health Scotland's foreign travel procedure had been finalised and issued to all staff as part of the finalised paper. It was noted that UNISON encouraged staff to use approved worldwide subsistence rates, rather than obtaining receipts as indicated in the new procedure.

3.6 External auditor's draft Annual Report to Members (Item 4.10)

Mr Crawford confirmed that the International Financial Reporting Standards conversion process had created a significant workload for the Head of Finance. It was noted that the external auditor had been on site that week to review progress.

With regard to the nature of internal and external audit work required, in relation to people and information management, it was noted that this would be addressed via agenda item 10.

3.7 Financial position as at 30 June 2009 (Item 5)

Efficiency savings

It was noted that year-to-date savings had been calculated and recorded.

3.8 Update on risk management (Item 6)

Mr Crawford indicated that there was a need for the Audit Committee to clarify the action that it wished to be taken with regard to risk management.

It was agreed that the 'full' risk register would be presented to the next Audit Committee meeting and annually thereafter. The Committee clarified that, in reviewing red risks quarterly, the commentary provided should include movement in the risk scoring and include corporate (overarching) risks.

DRM

3.9 Schedule of Audit Committee business/Audit Committee Terms of Reference: draft (Item 7)

Mr Crawford indicated that the action points contained in this item had been addressed and would be considered at agenda item 5.

3.10 Outstanding audit recommendations (Item 8)

It was noted that this item would be addressed by agenda item 11.

3.11 Technical bulletin (Item 9)

Procurement, Statement on involving SMEs (bullet point 1) - the statement had been drawn to the attention of Health Scotland's Contracts Manager.

2008/09 statement of internal control guidance (bullet point 5) - it was noted that this matter would be revisited via Health Scotland's 2009/10 Annual Accounts.

Sustainable development strategy (bullet point 6) - as indicated earlier in the meeting, it was noted that the staff consultation had concluded.

Partnership agreement with Counter Fraud Services (bullet point 7) - Mr Crawford confirmed that the partnership agreement had been signed by Health Scotland's Chief Executive and returned to Counter Fraud Services.

3.12 **Internal audit update** (Item 10)

Property transaction monitoring

Mr Crawford confirmed that the report had been finalised and submitted to the Scottish Government.

Corporate systems

It was noted that agenda items 9 and 10 referred.

4. **Financial position as at 30 September 2009 and future projections**
(HS Audit Cttee Paper 19/09)

Mr Crawford spoke to his paper, tabled the financial position which had been prepared the previous day, and highlighted a number of areas:

- At the half-year point the revenue variance stood at £78k (0.6%), with 36.8% of the annual allocation remaining to be committed. It was noted that some budget alignment/recoding was required.
- With regard to capital expenditure, Mr Crawford indicated that expenditure proposals in relation to the Business Improvement Programme would be presented to next Audit Committee meeting.
- It was noted that the average number of days taken to pay creditors was 11.97. This was a significant improvement but the target of 10 days was still to be attained.
- Staffing budget pressures continued to be monitored by the finance team.

The Committee was pleased to note the financial information presented, which reflected a satisfactory position at that point in the year.

Mr Crawford drew the Committee's attention to the financial contingency planning 2009/10 to 2011/12 which had been undertaken in the light of potential funding reductions in future years. He explained the format and versions of the figures presented, which showed a variety of scenarios and was intended to stimulate discussion. The Committee considered the possible options open to Health Scotland and it was noted that, given a policy of 'no surprises', the Employee Director had been kept informed.

Following discussion, it was agreed that a menu of options and implications for Health Scotland be prepared and raised at a future Board meeting to decide on the best way forward. The Audit Committee Chair thanked Mr Pettigrew and finance staff involved for producing the paper.

5. **Schedule of Audit Committee business/Audit Committee Terms of Reference: revised draft**
(HS Audit Cttee Paper 20/09)

Mr Crawford introduced his paper and indicated that the Schedule of Audit Committee Business/Audit Committee Terms of Reference had been revised in line with comments made at the previous Audit Committee meeting. The Board would consider the Audit Committee's Terms of Reference at its next meeting, on 6 November 2009.

In discussion, the Committee agreed the following further amendments to its Terms of Reference:

- Paragraph 4 to read 'The Chair of the Board is prohibited from being a member of the Audit Committee.' and be moved to the following section 'Attendance at meetings'.
- Paragraph 5 to include the sentence 'The Chair of the Board and other non-executive Board Members have the right to attend Audit Committee meetings.'
- Paragraph 12 – 'The Chair' to read 'The Chair of the Audit Committee'.
- Paragraph 16 i) to read 'agreeing long and short term internal audit plans, and discussing the external audit programme of work'
- Paragraph 16 - add new item, to read 'appointing the internal auditor and agreeing the fee'
- Paragraph 16 - add new item, to read 'noting the appointment of the external auditor by Audit Scotland and agreeing the fee'

Mr Wood indicated that there may be merit in reviewing the new guidance on audit committees, particularly around the role of the Audit Committee.

The Committee agreed to Mr Crawford's suggestion that, given the number of agenda items at quarterly meetings, reports on Counter Fraud Services, and sustainability, would be presented on an annual basis. The annual cycle of Audit Committee business was approved and would be adopted from the next meeting, which meant, therefore, that Audit Committee Members would have a half-hour private meeting with both internal and external auditors prior to the Audit Committee meeting on 27 November 2009.

**AC
Members**

6. **Board Standing Orders**
(HS Audit Cttee Paper 21/09)

Mr Cameron spoke to his paper and indicated that the areas highlighted in blue represented the main changes to the current Board Standing Orders.

ACTION

It was agreed that, in paragraph 5, reference should be made to advertising the Board meetings held in public.

Mr Cameron undertook to confirm the origins of holding Board meetings in private session and to include reference to this in the Board Standing Orders, as appropriate.

EC

Subject to the comments above, the Committee was content for the Board Standing Orders to be presented to the next Board meeting, for consideration/approval.

EC

7. **Equality and Diversity: 6 monthly progress update**
(HS Audit Cttee Paper 22/09)

Ms K Hetherington, Policy and Diversity Manager, spoke to her paper. This formed part of the new governance arrangements on equality and diversity, agreed by the Board in March 2009, that Board committees would receive six-monthly updates on aspects of the equality and diversity action plan relevant to each committee's remit, for appropriate scrutiny. She also tabled the Equality and Diversity Action Plan, for information.

The Committee's attention was drawn to a number of key areas, particularly procurement and research commissioning. Ms Hetherington also highlighted the work being undertaken with the voluntary sector and the need to evaluate the outcomes/delivery. She also reported that staff competencies were improving and that Health Scotland had taken part in the Stonewall benchmarking exercise. Currently, work was being undertaken to ensure mainstreaming of equality and diversity into Health Scotland's business planning.

With regard to Health Scotland's Race Equality Scheme, published in November 2008, Ms Hetherington indicated that, although not a legislative requirement, it was considered good practice to publish an annual report on the actions set out in the Scheme, similar to practice on Disability and Gender.

It was noted that the limited progress relating to policy review was currently being addressed by the Human Resources team and that the Staff Governance Committee was aware of the work to be done.

The Committee noted the paper and confirmed that it was an appropriate means of updating the Audit Committee.

8. Disability Equality Scheme in 2009-12

(HS Audit Cttee Paper 23/09)

Ms Hetherington introduced her paper, which was split into two documents for ease of reading/understanding. The first was a draft progress report on Health Scotland's Disability Scheme 2006-2009, demonstrating what had been achieved/improvements and the second was a draft scheme for 2009-2012 indicating what Health Scotland was working towards. In the following year it was anticipated that a single scheme would pull all the strands together and the Board Champions would also be involved.

In response to a question regarding the ambitiousness of the programme, Ms Hetherington indicated that the Staff Governance Committee had raised similar concerns and she confirmed that it was achievable. She also indicated that in-house training would be improved/expanded during the current financial year but there were still likely to be some capacity issues.

It was noted that the Board would be presented with the Disability Equality Scheme 2009-12, for formal sign-off, at its meeting on 6 November 2009.

9. Update on information governance

(HS Audit Cttee Paper 24/09)

Mr Crawford spoke to his paper, which was intended to make the Audit Committee aware of recent work in this area. Given the volume of information, and before the Committee made any major decisions on the first three enclosures, it was agreed that the interim Information Governance and Risk Manager should provide an audiovisual presentation, together with a risk report, at the next Audit Committee meeting.

DRM

With regard to the Freedom of Information (FOI) management report: 1 January - 30 June 2009, the Committee felt that the recommendations were clear and appropriate. Mr Crawford undertook to consider the suggestion that Health Scotland's FOI responses be published on its website.

DRM

10. Draft external audit information management report

(HS Audit Cttee Paper 25/09)

Ms Paterson introduced the external best value audit report, which was not part of the formal Audit Scotland process. However, NHS board chief executives were accountable for the delivery of best value.

ACTION

The Committee noted that the information contained in the draft External Audit Information Management Report was being presented to both the Corporate Management Team and the Audit Committee in order to assimilate broad, pan-organisational, executive and non-executive management feedback, which would be used to draft final management responses to the audit recommendations made.

Mr Crawford indicated that the Corporate Management Team had considered the report and felt that the recommendations represented good practice but would require to be addressed within a 2-3 year action plan.

It was proposed to link Health Scotland's work on information governance with the external audit report for presentation at the next meeting, prior to the Audit Committee considering/proposing management responses. Whilst recognising that the timescale was challenging, Mr Crawford endeavoured to comply with this request. It was agreed that the item could be addressed at the Audit Committee meeting in January 2010, if necessary.

The Committee considered each recommendation within the action plan (Appendix A) and commented initially as follows:

1. Corporate Management Team to take forward?
2. The Committee agreed with the recommendation.
3. The recommendation was evidenced in recent discussions with the Board.
4. The Committee required clarification on what this recommendation meant.
5. A knowledge/products database was being prepared with a temporary member of staff deployed on this work.
6. There would be capacity issues in achieving this recommendation.
7. Who would be responsible for the specific risk? The Committee agreed with the recommendation that a formal process should be put in place to manage contractual obligations and negotiations, through the recently appointed Contracts Manager.
8. Health Scotland was currently trying to engage/address this issue appropriately.
9. Clarification was required regarding the recommendations for this, and previous, items.

As a way forward, it was suggested that there may be merit in concentrating on the items that required better definition and Mr Crawford undertook to consult the external auditor, as necessary.

DRM

ACTION

11. Outstanding audit recommendations

(HS Audit Cttee Paper 26/09)

Mr Crawford spoke to his paper and indicated that recommendation numbers 7 and 33 were duplicates and number 7 should be deleted. He also advised that numbers 14 and 15 had both now been implemented and, therefore, there were now 11 recommendations which could be archived. The Committee approved this course of action.

DRM

With regard to recommendation number 29, it was agreed that the text should read 'Expenses should only be paid if they are supported by receipts or are covered by subsistence arrangements.'

DRM

As further updates were required to the table, Mr Crawford undertook to present a revised version to the next Audit Committee meeting, which would include the Committee's request that specific dates be attached to outstanding items.

DRM

12. Technical bulletin

(HS Audit Cttee Paper 27/09)

It was agreed to defer this item to the next Audit Committee meeting.

13. Internal audit update

Progress report

Mr Hallsworth drew the Committee's attention to Appendix B, on page 4, which reflected the internal audit operational plan 2009/10 performance, as at 16 October 2009.

Draft report - Governance

Mr Hallsworth introduced the draft governance report and indicated that only one recommendation had been made.

Mr Crawford pointed out that, as the Business Improvement Programme would take place over three years, there was a need to address this recommendation more promptly and an implementation date was required. He undertook to discuss this issue with the Corporate Management Team and to draft a management response for the Audit Committee Chair's approval.

DRM

The Committee accepted the need for this recommendation but agreed that this should refer to strategic level only, such as plans emanating from

the Board or its standing committees.

Draft report - Marketing and Communications

Mr Hallsworth indicated that no recommendations had been made in relation to marketing and communications.

14. Date of next meeting

The next meeting of the Audit Committee would be held at 10.30am on Friday 27 November 2009, in Woodburn House, Canaan Lane, Edinburgh.

15. Any other business

15.1 Social marketing

Mr Crawford advised that notification had been received from the Scottish Government that an allocation of £1.7m for the Scottish Centre for Health Working Lives may be transferred from non-core to core funding. Depending on the timing of this transfer, it was possible that there may be a 2.3% uplift in the corresponding allocation for 2010/11. However, it was understood that Health Scotland's core budget would be reduced in 2009/10 and 2010/11 (amounts to be confirmed), whilst the organisation was still being charged with supporting local health boards.

The Committee requested that Mr Crawford raise this issue with the Scottish Government and express the Audit Committee's concerns over Health Scotland's capacity to support local health boards without the appropriate level of funding.