

HIGHLAND NHS BOARD	Assynt House Beechwood Park Inverness IV2 3BW Tel: 01463 717123 Fax: 01463 235189 www.nhshighland.scot.nhs.uk	
DRAFT MINUTE of MEETING of the NHS Board Audit Committee Microsoft Teams	9 March 2021 9.00am	

Present: Mr Alasdair Christie, NHS Board Non-Executive (Chair)
 Mr Alexander Anderson, NHS Board Non-Executive
 Ms Ann Clark, NHS Board Non-Executive

Other Non-Executive Directors Present: Prof Boyd Robertson, NHS Board Chair
 Mr Gerard O'Brien
 Ms Susan Ringwood

In Attendance: Mr Iain Addison, Head of Area Accounting
 Mr Chris Brown, Azets
 Ms Jo Brown, Grant Thornton
 Ms Ruth Daly, Board Secretary
 Ms Fiona Hogg, Director of HR and OD
 Mr David Garden, Director of Finance
 Ms Stephanie Hume, Azets
 Ms Claire Connor, Grant Thornton
 Dr Boyd Peters, Medical Director (until 10:10am)
 Ms Louise McInnes, Risk Manager
 Ms Louise Bussell, Interim Chief Officer, North Highland Health and Social Care Partnership
 Ms Veronika Burgess, Committee Administrator

1 WELCOME, APOLOGIES AND DECLARATION OF INTERESTS

Mr Alasdair 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 recorded for administrative purposes and that the recording would be deleted once the minutes had been completed.

2 MINUTE AND ACTION PLAN OF MEETING HELD ON 8 DECEMBER 2020

The minute of the meeting held on 8 December 2020 was **approved**.

It was agreed that the following items on the Action Plan had been completed and can be removed:

- Laboratories Service Redesign
- External Audit Final Report 2019/20
- Patient Records Management Community Planning Issues
- PAPLS Briefing Pack

3 MATTERS ARISING

The Chair advised that he and Mr Alex Anderson will be involved in the interview process for the co-option of lay members, as noted at the December meeting. This will take place next week.

EXTERNAL AUDIT

4 External Audit Plan for Financial Year ending 31 March 2021 Report by Joanne Brown, Grant Thornton, External Audit

Ms Jo Brown spoke to the circulated report. The plan sets out a number of items including the following:

- Materiality: this is set at £10.7 million (£10.6 million for the Board). Performance materiality of £7.4 million. There is a lower materiality of £5,000 which will be used on the Staff Remuneration Report. Materiality will continue to be revised and will be updated on receipt of the unaudited financial statements.
- Significant audit risks: these are in accordance with the ISAs and FRC Practice Note 10. These include management override of controls, risk of fraud in revenue recognition (focused on occurrence and accuracy of revenue excluding Scottish Government funding), risk of fraud in expenditure (focused on cut-off in particular yearend), and valuation of land and buildings.
The plan has not identified a significant audit risk in relation to the Local Government Pension Scheme, but this area is worked on at yearend around the assumptions and judgements within the actuarial valuation so work will be completed in this area.
- Wider scope: identified risks around financial sustainability, governance and transparency (particularly during Covid and how the Board's governance arrangements have evolved), and value for money (focussed around the Lead Agency Model and Partnership working).
This will also include consideration of the Healing Process and how this has been funded and accounted for in the accounts.
- Other audit matters: the revised ISA 540 standard is requiring additional work at planning and yearend looking at key estimates and judgements in the accounts. At the moment they recognise this to relate to depreciation, valuation of property, plant and equipment, the provision for clinical and medical negligence costs and the pension scheme, plus incoming accruals.
- Timeline: although the deadline for audited accounts has been extended to the end of August, the intention is to complete the audit in May with a view to having the Audit Committee review the final report and final accounts at the end of June, and submit to Board approval thereafter.
- Fees: agreed with the Director of Finance, this includes £6,000 in addition to the baseline fee which comes in at 4% and are able to vary the fee up to 10%. The rationale for fee increases is included in the report.

Ms Ann Clark enquired about the performance aspect of the audit and if there was a national approach to this. Ms J Brown advised that typically they would look at the Board's performance against the LDP targets and the waitlists, but in light of the exceptional year with Covid they are proposing to work with the finance team around the front end of the accounts. Scottish Government has recognised the impact of Covid and Audit Scotland is reviewing what the NHS overview reporting will look like, continuing to work with Audit Scotland on this.

In relation to the ISA 540 and the requirement to assess the Audit Committee's understanding, Ms A Clark suggested a development session on this aspect. Ms J Brown advised that she would be happy to arrange a separate session on this if required. The Chair agreed this would be useful and will arrange this offline.

The Chair welcomed Ms Claire Connor, the new Audit Manager at Grant Thornton.

The Committee noted the report.

Action: The Chair will discuss offline with Ms J Brown regarding arranging a development session on the ISA 540

INTERNAL AUDIT

5 Internal Audit Summary Report Report by Azets, Internal Auditors on behalf of David Garden, Director of Finance

Mr Chris Brown spoke to the circulated report. Everything is on track; 7 internal reviews have been completed, there are 3 reviews in planning, and 2 where fieldwork is complete and will come to the next Audit Committee meeting.

The Chair enquired about the Risk Management report (B7). Mr C Brown advised that the audit that is being completed is to support the Board to implement a plan that will be workable, practical and in line with good practice. They are reviewing things as they happen, as they are implemented, and feeding this back. This will fit together with the work that the Board is completing.

Mr Alex Anderson enquired about the Immunisation report (C11); will this be affected by Covid vaccinations, will immunisations be separated out. Mr C Brown advised that discussions are currently taking place regarding this.

Ms Ann Clark enquired about the relationship between the Risk Management report (B7) and the Board Assurance Framework report (C10). Mr C Brown confirmed that the same auditor is completing both of these reviews and the approach is very similar with both; supporting management, implementing a framework that is useful and ties in management risk to the other assurances the Board requires in an effective and efficient way.

Ms A Clark commented about the language and use of terminology in certain reports; for example the Board Risk Register is now called the Board Assurance Framework. This change in wording can be confusing as it is similar to wording used in other reports previously produced; she suggested that there be some clarity in the terminology used going forward. Mr C Brown confirmed that this is one of the reasons for the audit, to ensure that there is complete clarity on the purpose of the Board Assurance Framework and how it links with the Risk Register, along with clarifying the terminology and interpretation of this.

The Committee noted the report and work undertaken.

6 Individual Reports for Consideration

(a) Performance Data

Ms Stephanie Hume spoke to the circulated report. This review was looking at the Integrated Performance and Quality Report (IPQR). It was recognised that the IPQR is a work in progress, and that the audit was completed early in the process.

There were five specific control objectives that were looked at;

1. Was the report giving the Board the needed information in a timely manner
2. Were the roles and responsibilities clear on what was required to produce the report
3. Were the areas of variation within the report being followed up and explained in enough detail
4. Was the Performance Recovery Board fulfilling its role in terms of oversight
5. Did management engage with stakeholders throughout the development

There were seven improvement actions that resulted from the review, with one being a grade 3. The grade 3 related to control objective 4 and the scrutiny of overall performance. It was

found that the Terms of Reference for the Finance, Resources and Performance Sub-Committee (FRP) stated that it had overall responsibility to scrutinise performance for the Board in relation to both non-financial and financial targets, and specifically that the Committee would review the sections of the IPQR that were relevant; however the review found that it didn't define what those sections were and more clarity was needed as to what was being scrutinised and what the role of other Governance Committees was. Within the minutes reviewed there was a lack of evidence of discussion around the scrutiny of non-financial performance. It was also found that it was unclear which forum had overall responsibility for approving the report before it started going through the process.

The recommendations in relation to this were:

- Ensure that the approval process is clearly articulated including within the Terms of Reference
- Ensure that the roles of the PRB and FRP in relation to the IPQR are clearly documented and communicated out to staff
- The PRB should implement a forward looking plan to ensure that the relevant performance areas are monitored over an agreed period of time

In terms of good practice, it was found that the IPQR was seen as a positive in the organisation, the first time that the Board has had a document where there is performance data in one place that is shared throughout Governance and Performance Committees and the Board.

The Chair commented regarding the timings of actions and due dates, and if it would be possible to accelerate these dates to be completed as part of the annual audit rather than leave as outstanding items; this would avoid some extra audit observations by resolving basic points early.

Mr David Garden agreed to discuss this with Mr David Park to see if some actions could be fast tracked to June.

Mr Alex Anderson provided further information regarding the FRP and their review of the IPQR. He confirmed that the FRP don't discuss the areas that are under other Governance Committees unless there is something that they feel crosses over. He agreed that this is not specified in the Terms of Reference.

Prof Boyd Robertson welcomed the recommendation under section 4.2 of the report which encouraged arranging a Board Development Session on the scrutiny and challenge of performance data taking account of feedback provided by the Non-Executive Directors; as well as looking at the information coming to Board level and ensuring that this is appropriately high level enough.

The Committee noted the report.

Action: Mr David Garden to discuss with Mr David Park to see if some actions could be fast tracked to form part of the annual accounts process.

7 Management Follow Up Report on Outstanding Audit Actions Report by Iain Addison, Head of Area Accounting on behalf of David Garden, Director of Finance

Mr Iain Addison spoke to the circulated report and gave updates on the details contained therein. The report contains the latest position and responses received from the sponsors of the individual issues. All outstanding actions are expected to be completed by March 2021.

The Chair requested that an update report be provided to the Committee via email by 10 April 2021.

The Chair expressed his thanks to all who have worked on this project.

Ms Fiona Hogg provided an update regarding item 2.8 of the report, payroll and expenses. She expressed her concern as to whether 31 March is a realistic timeline, she advised that there have been multiple commitments that payroll has had to attend to including the Covid bonus payment and the backdated 1% pay increase agenda for change required for March payroll. She confirmed that there is a plan in place to achieve the audit actions, and they are in the process of hiring a dedicated payroll manager. She suggested that the requirement of developing Operating Procedures be finalised with the input of the new payroll manager.

Ms F Hogg also provided an update regarding item 2.9 of the report, staff redeployment. She advised that there is the opportunity post Covid to radically change the way staff redeployment is handled, and this is being looked at as part of the agenda for our workforce board. She confirmed that good progress is being made with the audit actions and there is a clear plan in place, but is unsure if this will be completed by 31 March.

Ms F Hogg to further discuss this offline with Mr I Addison.

Mr Alex Anderson commented about the completion deadline of 31 March, and whether this would place extra pressure on Internal Audit if multiple actions were completed at once.

The Chair advised that confirmation from management needs to be completed by 31 March, and then Internal Audit will take the time necessary to review and evaluate. Mr I Addison confirmed that this would hopefully be by the May Audit Committee meeting.

Mr Gerry O'Brien enquired whether the follow up report related to 20/21 as well.

Mr I Addison confirmed that the report does not include 20/21 and was primarily for the backlog. He will look at completing a secondary report to include the 20/21 data and position.

Mr David Garden commended the work done and the progress made; there were 140 outstanding actions and the majority have been completed. It is important to maintain this level of commitment.

The Committee noted the report.

Action: Mr I Addison to provide an update report to the Committee via email by 10 April.
Mr I Addison to include 20/21 data and position for future reports.

8 Draft 2021/22 Internal Audit Plan

Mr Chris Brown spoke to the circulated draft plan and the proposed upcoming audit areas for 21/22. Suggestions for the plan were originally discussed and provided in December and this is the first draft of the complete plan for 21/22. They are hoping to finalise the plan in May, and welcomed any feedback or suggestions.

Mr C Brown advised that the plan is slightly over on days in terms of budget; but he confirmed that there is some contingency for this.

Ms Ann Clark commented regarding area B6 PMO / Financial Savings Review; there has recently been a joint project board with the Council formed, and they have a significant savings program around these workstreams.

Mr C Brown confirmed that they will look at tying the PMO review in with the work at the Council, and speak to the Council's internal auditors about this.

Ms A Clark further enquired about risks related to estates, there are a lot of risks regarding this on the current risk register but there doesn't seem to be anything regarding this in the plan.

Following on from this Mr Alex Anderson also enquired about major projects, big hospital builds, and why these aren't mentioned; as the majority of capital expenditure goes into these projects it would be good to include.

Mr C Brown agreed that these are within the scope of internal audit review, and will be something they revisit with management.

Mr Gerry O'Brien enquired about when Expendables and Payables were last audited as this is not included in the plan.

Mr C Brown confirmed that this is a cyclical audit that is covered frequently, so this is most likely a typo error in the plan, but he will check and confirm.

Prof Boyd Robertson commented that there is a strong link between B2 Culture Review and B5 Service Redesign; and he agreed with extending the scope where possible to include ongoing major redesign projects.

RISK MANAGEMENT

9 Risk Management and Corporate Risk Update Report by Louise McInnes, Risk Manager

9.1 Risk Management Framework Implementation Update

9.2 Minute of the Risk Management Steering Group meetings held 1 July 2020 and 5 January 2021

10 Risk Management Strategy and Risk Management Policy

To be noted: Items 9, 9.1, 9.2 and 10 were discussed as one item.

Ms Louse McInnes spoke to the circulated update report. The report highlights the progress made; all Governance groups are receiving a report on the Board Risk Assurance Framework's relevant risks, along with linking in the operational risks; they are currently reviewing what is on the Level 1 Board Risk Assurance Framework and whether this needs to be reviewed as there is a combination of strategic and operational. They have highlighted the issue of escalation and have identified that the agreed level 16 needs to be more around how the risk is being linked to the higher level, but not necessary about escalating.

Ms L McInnes confirmed that the Risk Management Steering Group is once again meeting quarterly.

Ms L McInnes spoke to the circulated revised Risk Management Strategy and Risk Management Policy. She confirmed that the documents have been reviewed by the Risk Management Steering Group, along with Executives and Senior Managers; all comments have been taken on board and implemented. She welcomed any feedback on these documents.

Mr Alex Anderson enquired about the estates entries on the Risk Register; as most of these aren't corporate risks but are operational, will these be removed or combined in some way to reflect the current situation rather than historical.

Ms L McInnes confirmed that the EDG is currently looking at which of the risks on Level 1 should instead be on operational risk registers, and if these can be deescalated; this includes estates. There will be a follow up meeting held later in the month.

Mr A Anderson commented regarding the target levels on the Risk Register and enquired why there is no explanation provided for the levels set, and why the organisation is happy to accept a high risk.

Following on from this Ms Susan Ringwood commented that from the report she is not able to tell the progress made towards the targets and how close they are to being achieved; she suggested an arrow or similar to clearly show the direction of travel.

Ms L McInnes acknowledged that there are still underlining processes to be reviewed and revised, and they will take these suggestions on board.

Ms Ann Clark provided the following suggestions and feedback on the Strategy and Policy documents:

- regarding allocation of roles and responsibilities; there is no mention of the Executive Directors Group

- in regard to the Board responsibilities, should this also mention their responsibility to agree the risk appetite and set policy in risk management
- has the communications team been contacted to get support to raise staff awareness

Ms L McInnes will take these suggestions on board, and amend as appropriate. She confirmed that currently communications have been taking place through leadership and senior management teams, but contact with the communications team is something that will be explored.

Mr Gerry O'Brien provided the following suggestions on the Policy document:

- Risk categories; there is nothing aligned to reputational damage to the board which would be good to include
- Risk Categories; include sustainability as a category in its own right
- Assignment of the risk owner; who has the ultimate responsibility on agreeing ownership and accountability of a particular risk.

Ms L McInnes confirmed that the risk categories, types and sub-types of risk, will be clarified within the Policy. The discussion and agreement of new risks should be completed through the senior management team and it would be their group discussions that would decide who would be the most appropriate risk owner at that point; she confirmed this will be clarified in the Policy with a descriptor added.

Ms Ann Clark suggested a review of the risk appetite alongside developing the longer term strategy in the course of the coming year, especially in light of Covid. The Chair agreed this would be useful.

The Committee noted the update report.

The Committee noted the minutes.

The Committee approved the Risk Management Strategy and Risk Management Policy, subject to the noted revisions.

Action: A review of the risk appetite to take place.

COUNTER FRAUD UPDATE

11 Report by Barbara Milne, Technical Accountant as Fraud Liaison Officer

- **Appendix No. 1 Fraud Report**
- **Appendix No. 2 CFS Quarterly Report**
- **Appendix No. 3 CFS Presents – Live**
- **Appendix No. 4 CFS Rolling COVID 19 Intelligence Alert No 39 extract**

Mr Iain Addison spoke to the circulated reports on behalf of Ms Barbara Milne, drawing attention to the work ongoing in terms of training and sessions for awareness, as well as the NFI 20/21 exercise.

Regarding the NFI 20/21 exercise Ms Ann Clark and Mr Gerry O'Brien enquired about the following:

- The resource identified to undertake the investigations; is there a plan in place to address this
- The number identified; is this consistent with previous reports

Mr I Addison confirmed that they are aware that resources are needed and this will be looked at. He further confirmed that the identified number is consistent with previous reports.

Mr I Addison advised that Ms B Milne will be leaving at the end of April. The Chair thanked Ms B Milne for all her work over the years on behalf of the Committee.

The Committee noted the reports.

FINANCIAL GOVERNANCE

12 Annual Accounts Production Update

Mr Iain Addison provided a verbal update; meetings have taken place with the External Audit team and data has been provided for the interim audit, this will enable some work to be completed in advance. Timelines have been agreed with the team; the initial set of accounts will be completed by 6 May, with time to answer any queries, and have the final accounts completed by 22 June.

The Committee noted the update.

13 COMMITTEE ANNUAL WORK PLAN 2021/2022

The Chair requested that 'Management Follow Up Report on Outstanding Audit Actions' be added as a standing item.

Mr Gerry O'Brien enquired if there was a possibility to review a draft set of annual accounts at the May meeting given the extra requirements. Mr I Addison advised that timing would be the issue as the first draft would not be available for when the meeting papers go out; but this could be sent out to members separately once produced.

Ms Jo Brown advised that some of their clients hold a mini financial statement workshop for Audit Committee members (and wider Board members if interested) in early June to walk through the accounts and explain areas of judgements and accounting policies. Mr G O'Brien agreed this would be useful. The Chair will follow this suggestion up with Ms J Brown.

The Committee approved the work plan subject to the noted revision.

Action: The Chair will discuss offline with Ms Jo Brown, Mr Iain Addison and Mr David Garden regarding a financial statement workshop.

14 AUDIT SCOTLAND

The full suite of Audit Scotland reports can be accessed through the following link – <https://www.audit-scotland.gov.uk/report/search>

15 PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE UPDATE Update from David Garden, Director of Finance

Mr David Garden confirmed that the information requests had been submitted and no feedback had been received as yet.

The Committee noted the update.

16 ANY OTHER COMPETENT BUSINESS

No items were raised.

17 DATE OF NEXT MEETING

The next meeting will be held on **Tuesday 4 May 2021 at 9am**, venue to be confirmed.

The meeting closed at 10.30am