

NHS Education for Scotland

Board Paper Summary: Audit Committee Minutes

1. **Title of Paper**

Minutes of Audit Committee meeting held on 14 January 2016: copy attached.

2. **Author(s) of Paper**

Alison Shiell, Corporate Governance Officer

3. **Purpose of Paper**

To receive the minutes of the Audit Committee meeting held on 14 January 2016.

4. **Items for Noting**

a) **Item 7(c) – Revision to the Annual Report of Standing Committees**

The committee approved amends to the Annual Report of Standing Committees template and guidance. Lead Officers will be asked to provide evidence demonstrating how standing committee work has had an impact in NES.

b) **Item 8 – Internal Audit Reports**

The committee received the following internal audit reports:

i. **Draft Internal Audit Plan for 2016/17**

The committee discussed and noted a draft 2016-17 internal audit plan. A final version of the plan will be submitted to the next Audit Committee for formal approval.

ii. **Internal Audit Follow-Up (Q3 2015/16)**

This quarterly report provides assurance that internal audit actions have been implemented satisfactorily.

The committee noted the report and a verbal update from the internal auditors regarding the current status of outstanding management actions.

iii. **Equality & Diversity Report**

This report reviewed the processes for planning, monitoring and reporting the delivery of the 2013-17 NES equality and diversity action plan.

The committee noted this positive report and was satisfied with the management response to the two recommendations.

iv. **Directorate Review – NMAHP**

This report evaluated the current NMAHP budgeting model.

The committee noted this report and was satisfied with the management

response to the seven recommendations.

c) Item 9 – External Audit Reports

The committee received the following external audit report:

i. External Audit Plan for the 2015-16 Audit

The committee received and noted a planning report for the 2015-16 external audit. Members noted the 2015/16 audit will focus on financial sustainability, office rationalisation and completion of a pension scheme buy out.

d) Item 11 – External Audit Reports

The committee approved the refreshed NES Risk Management Strategy which has been updated in light of recommendations from the internal auditor.

e) Item 12 – Audit Scotland Reports

The committee received and noted the following Audit Scotland reports:

- Health and Social Care Integration
- NHS Scotland in 2015

5. Recommendations

None.

NES
January 2016
AS/

Unconfirmed

IN CONFIDENCE

NES/AUD/16/12

NHS Education for Scotland

AUDIT COMMITTEE

Minutes of the Fifty Sixth Meeting of the Audit Committee held on Thursday 14 January 2016 at Westport 102, Edinburgh.

Present: Ms Carole Wilkinson (Chair)
Ms Susan Douglas-Scott
Dr Doreen Steele (via telephone)
Ms Susan Stewart

In attendance: Ms Helen Berry, Scott-Moncrieff
Mr Jim Boyle, Deloitte
Ms Lauren Headley, Deloitte
Dr Lindsay Burley, NES Board Chair
Ms Caroline Lamb, Chief Executive
Ms Audrey McColl, Acting Director of Finance/Lead Officer
Ms Janice Sinclair, Acting Deputy Director of Finance & Fraud Liaison Officer
(via telephone)
Ms Kristi Long, Equality & Diversity Adviser (via telephone – items 1-8(d))
Mr Rob Coward, Educational Projects Manager (item 11)
Ms Alison Shiell, Corporate Governance Officer

1. Welcome and introductions

The Chair welcomed everyone to the meeting, particularly Jim Boyle and Lauren Headley from Deloitte and Helen Berry from Scott-Moncrieff. Kristi Long and Rob Coward attended for items 8(d) and 11 respectively.

2. Apologies for absence

No apologies for absence had been received.

3. Declarations of interest

There were no declarations of interest in relation to the items on the agenda.

4. Any other business

There was no other business requiring consideration by the committee.

5. Minutes of Audit Committee meeting, 1 October 2015. (NES/AUD/15/45)

The minutes of the previous meeting held on 1 October 2015 were approved as a correct record.

Action: AS

6. Action List of Audit Committee, 1 October 2015.

(NES/AUD/15/46)

Audrey McColl presented the list of actions agreed at the previous meeting. Members noted actions which had been completed or were to be addressed on the agenda.

Specific updates were given for the following items:

- Minute 8(b) – As a result of the findings of the Management of Fixed-Term Contracts (FTCs) internal audit report, Audrey McColl highlighted that colleagues in Finance and HR have reviewed past/present FTCs in NES. The majority of FTCs are Band 6 and 7 roles. HR will examine this data further to identify whether any patterns exist, particularly in relation to required skill sets and a report will be submitted to the next Audit Committee. **Action: AMcC**

During discussion, Caroline Lamb commented that many FTCs are required during periods of organisational change in NES to enable change processes to take place; and that others are required to support activity where funding is time limited. She further commented that NES cannot currently take on additional financial risk through making permanent instead of fixed term appointments.

- Minute 10/Item 7(b) – Audrey McColl confirmed that item 7(b) (Assessment of External Audit) has been deferred until the next Audit Committee meeting in April. The documentation received from the External Auditors needs to be reviewed and then made specific to NES before it can be used as part of the Audit Committee annual performance review. **Action: AMcC**

7. Matters arising

a. Induction for Audit Committee Members

Audrey McColl informed the committee that induction arrangements for new Audit Committee members have been reviewed with a view to strengthening the existing process. Currently, new members are advised to attend an Audit Committee training course run by *On Board*, an external training company. Members have commented that whilst the *On Board* training is useful, it provides only a generic overview of Audit Committee processes and procedures.

In consultation with the Chair, Audrey McColl recommended that a workshop approach could be used for new Audit Committee members in future. Alongside the *On Board* training, NES Finance staff and Internal Audit could run short sessions on NES-specific audit processes including the preparation of the annual accounts and development of the internal audit reports. Topics covered could include how judgment is applied to areas deemed to be of significant risk and NES' audit relationship with Scottish Government.

Members welcomed the workshop approach to Audit Committee induction going forward. Audrey McColl will liaise with the newest Audit Committee members (Susan Douglas-Scott and Susan Stewart) to identify dates for potential workshop sessions.

Action: AMcC

b. Assessment of External Audit

Members noted this item had been deferred until the next Audit Committee meeting.

Action: AMcC

c. Revision to the Annual Report of Standing Committees

(NES/AUD/16/03)

Audrey McColl presented proposed amendments to the guidance on completion of the Annual Report of Standing Committees for review and approval. At the June 2015 Audit Committee, it was agreed that a formal conclusion should be added to the Annual Report stating that the remit of each committee had been discharged effectively. It was also agreed that information should be included to demonstrate the impact the work of each committee has had in NES.

During discussion, the Chair highlighted the need for the Annual Report guidance to include advice on how Lead Officers should demonstrate the impact of standing committees realistically and through the provision of genuine impact examples. The Chair also asked that the 'Conclusion and Recommendation' sentence within the guidance is amended to include confirmation that the 'committee considered' that the remit of the committee has/has not been discharged effectively.

A member queried whether Best Value statements should be included in individual standing committee Annual Reports to add additional assurance. Caroline Lamb advised that Best Value is considered as a whole in NES as part of the annual review of the Audit Committee. Members agreed that demonstrating impact should be the key focus of 2015-16 Annual Reports, with the Best Value process remaining as it stands.

After discussion, the committee approved the proposed amendments to the Annual Report of Standing Committees template and guidance. **Action: AMcC**

8. Internal Audit Reports

a. Internal Audit Progress Report

(NES/AUD/16/04)

Helen Berry presented an internal audit Progress Report. This report presents the Audit Committee with a formal summary of internal audit activity since the last meeting, and confirms the reviews planned for the coming quarter (in line with the 2015/16 internal audit plan).

Helen Berry noted that two internal audit reports focusing on Turas (online trainee management system) will be presented at the next Audit Committee. Whilst one of these reports could have been submitted to this Audit Committee, it was agreed with Audrey McColl that the reports should be submitted together.

The committee noted the information contained in the Progress Report.

b. Draft Internal Audit Plan for 2016-17

(NES/AUD/16/05)

Helen Berry presented a draft 2016-17 internal audit plan for review and discussion. The 2016/17 plan incorporates the areas identified as part of the 2015/16 strategic plan review and will also be subject to further discussion with the NES Executive Team to identify whether any additional changes are required. The 2016/17 plan will then be presented to the Audit Committee in April 2016 for formal approval. The committee were asked to review the draft 2016/17 internal audit plan and consider whether there are any other areas of concern that should be incorporated.

Members reviewed and noted the planned 2016/17 audit days set out in Appendix 1. The following audit areas were discussed in detail:

- Operational Planning (C1/page 8) – Audrey McColl highlighted the need to time the operational planning audit days appropriately as the system used may be updated during 2016/17. Optometry Service Level Agreement (SLA) management (C10/page 9) – in light of discussions at previous Audit Committee meetings, the Chair asked

that this review is broadened to look at all directorates' management of their SLAs with health boards. Optometry SLA data could then be used as part of a wider sample.

In relation to the FTCs discussion noted in item 6, a member queried whether the FTC process should be audited further during 2016/17. Caroline Lamb noted that the challenging financial environment means the use of FTCs will continue in NES for the foreseeable future. Members discussed whether FTCs could be used more creatively in all health boards, particularly as secondment opportunities between NES and territorial boards are decreasing. The Chair noted that no further audit days are required for the FTC process as management recommendations from the original report will be monitored as part of the overall internal audit process.

In relation to the internal audit days planned for 2016/17, the Chair queried whether 'workforce issues' should be highlighted. Helen Berry noted that the Talent Management framework will look specifically at succession planning and other workforce matters. The NES Board Chair also highlighted that NES does not have responsibility for the entire NHS workforce.

It was noted that the NES Corporate Risk Register (Appendix 2) now included three new risks. There are planned audit areas that relate specifically to Risks 18 and 19, however Helen Berry advised that Risk 17 is dependent on external factors. Risk 17 focuses on workforce developments at a national level and whether these developments will be driven by Health Education England rather than collaborating/consulting with the devolved nations.

Members discussed NES' involvement in national workforce development and the complexities associated with agreeing and managing national/devolved processes. Members agreed that it would be difficult for controls in relation to Risk 17 to be formally audited, however the committee also noted the importance of monitoring national workforce development going forward.

After discussion, the committee noted the draft 2016-17 internal audit plan. Members were asked to send any further amendments to Audrey McColl. **Action: HB/AMcC**

c. Follow-Up of Audit Recommendations – Quarter 3 (NES/AUD/16/07)

Helen Berry introduced a report presenting the progress made by NES in implementing agreed management actions since the end of August 2015. 7 management actions have been closed during Quarter 3 and 21 have been carried forward into 2016. Of these 21, 10 are partially complete and 11 are not yet due for completion. Helen Berry praised the updated follow-up process which is managed by Sandra O'Brien (Executive Assistant to Audrey McColl) and utilises the Integrated Planning & Performance System (IPPS).

During discussion, Audrey McColl commented that a large number of outstanding management actions will be closed once the Finance Transformation is formally implemented.

The Committee noted the report and the significant progress being made in completing outstanding management actions.

d. Equality and Diversity Report (NES/AUD/16/07)

Kristi Long was formally welcomed to the meeting for this item. Helen Berry introduced an internal audit report which reviewed the processes for planning, monitoring and reporting the delivery of the 2013-17 NES equality and diversity (E&D) action plan. The report focused particularly on whether actions are included in corporate and operational

planning and whether the impact of actions is assessed and reported. Members noted the Executive Team had asked for E&D in NES to be reviewed during 2015/16.

The report concluded that NES has effective and efficient processes in place for the planning, monitoring and reporting of the equality and diversity action plan. There are clear processes and governance arrangements in place to ensure NES compliance with Scottish E&D legislation.

Two opportunities to improve existing processes were identified within the report:

- The 2013-17 NES E&D Strategic Action Plan could be enhanced to state how E&D outcomes will be measured and what evidence is available to measure the specified outcome.
- NES should review the timing of planning cycles for future E&D Strategic Action Plans and the NES Strategic Framework to ensure that the outcomes from each are coherent. Currently, the E&D Strategic Action Plan runs from 2013-17 whereas the NES Strategic Framework runs from 2014-19.

During discussion, the following points were noted:

- The Chair queried whether the PFPI/PCCP E&D Leads Network (PEDLN) could be responsible for an entire management recommendation. Kristi Long commented that overall accountability would be assigned to a single NES Executive Director, with PEDLN members contributing to completion of an action as appropriate.
- In response to a query, Kristi Long confirmed that PEDLN would review the E&D internal audit report at its next meeting in February. PEDLN members will also look at potentially reviewing the E&D Risk Register in light of the internal audit report.
- Kristi Long also advised members that organisations across the public sector are discussing how to improve the planning and measurement of E&D outcomes. Flexibility exists within the Equality Act (2010) to allow for NES to amend its current planning/measurement processes. However, Kristi Long also noted that it will be important for NES not to 'dis-align' itself from other health boards in Scotland regarding future E&D planning, particularly in relation to implementation of the *2020 Workforce Vision*. Regular horizon-scanning and networking will be important going forward.
- Members noted that NES may publish a revised set of equality outcomes in 2018. Kristi Long advised that these revised outcomes will not change significantly from those agreed in 2013.

After discussion, the committee noted this positive report and was satisfied with the management response to the two recommendations. It was agreed that the E&D internal audit report would be considered by the PEDLN and did not need to be circulated to any other governance committees of the Board.

e. Directorate Review – NMAHP

(NES/AUD/16/08)

Helen Berry introduced an internal audit report which evaluated the current NMAHP budgeting model. The review assessed the design and effectiveness of the budgeting approach, and also included a comparison against good practice seen in other areas of the public sector. Members noted this is the first internal audit report to look at directorate level processes after it was agreed at the January 2015 Audit Committee to move away from Regional Reviews.

The report concluded that the controls in place to set and manage the NMAHP directorate budget are adequately designed and operating effectively in the majority of areas. The report identified seven areas where current controls could be strengthened.

Helen Berry provided further context to the report's findings by stating that NMAHP operates in a challenging budget management environment due to the large number of non-recurring projects it completes each year. NMAHP relies on the Scottish Government and other external parties to confirm funding allocations at an individual project level, which can make advance planning complicated. Any delays in the confirmation of funding awards can also impact on NMAHP's availability to fully complete projects within a financial year.

During discussion, members noted that the Director of NMAHP and the NMAHP Business Manager have been in ongoing discussions with the Chief Nursing Officer at Scottish Government to implement a new funding model. NMAHP has proposed moving to a programme-based funding model, rather than the current individual project-based one. Members noted the positive impact this new budgeting approach could have within the directorate.

The report's seven management actions focus on the tightening up of existing procedures. Members discussed the Variance Report action (5.2), which recommends that NMAHP and Finance staff work together to consider whether it would be appropriate to record budgets within the general ledger before non-recurrent project funding is formally received. The management response states that the uncertainty/associated risk of funding not becoming available to NES means it would not be appropriate to build allocations into the directorate budget until final confirmation is received. Helen Berry confirmed this is an acceptable management response.

Audrey McColl highlighted the importance of the Finance team having visibility of accurate and realistic directorate funding information as this helps to consolidate the corporate funding position. The implementation of the Finance Transformation will also lead to improved, more consistent processes across the NES directorates.

Members discussed the challenging financial environment going forward, particularly in relation to the potential 10% Scottish Government cut in non-recurrent funding. Caroline Lamb noted this cut could have a significant impact on NMAHP's future work. Scottish Government are also planning to issue future non-recurrent funding via 'bundling', rather than smaller, individual amounts received throughout the financial year. This change in process aims to increase funding flexibility for all health boards in Scotland. Audrey McColl confirmed that further information regarding the 2016-17 budget will be provided at the NES Board meeting on 27 January.

After discussion, the committee noted the NMAHP budgeting internal audit report and was satisfied with the management response to the seven recommendations.

9. External Audit Reports

a. External Audit Plan for the 2015/16 Audit (NES/AUD/16/09)

Jim Boyle presented the planning report for the 2015-16 external audit to the committee for review and noting and also highlighted that 2015/16 is the final year of Deloitte's appointment as NES' external auditor.

Jim Boyle confirmed that planning and fieldwork for the 2015/16 audit is on track. He also confirmed there were no external audit concerns in relation to year-end delivery. Members noted the auditing and accounting environment remains benign with no significant changes in instruction from Audit Scotland.

NES' 2015/16 external audit will focus on the following three areas:

- Financial sustainability – Achievement of NES expenditure resource limits. The external auditors are aware of the financial pressures across the public sector, which

must be balanced alongside effective planning to ensure services can be delivered on a sustainable basis.

- Office rationalisation – NES' office rationalisation programme is continuing, with discussions being held in relation to reducing NES' property space in Aberdeen.
- Completion of pension scheme buy out – NES is in the process of buying out of a defined benefit pension scheme. The majority of this buy out work was carried out during the 2014-15 financial year, and the external auditors expect there to be minimal financial impact on the 2015-16 annual accounts. Audrey McColl noted that NES are awaiting final signatures from the remaining pension parties on the pension buy out deed.

The committee noted the planning report for the 2015-16 external audit and the Chair thanked the external auditors for their work.

10. Counter Fraud Update

(NES/AUD/16/10)

Janice Sinclair introduced an update report in relation to activities in NES that support the Strategy to Combat Financial Crime in NHS Scotland.

An updated Counter Fraud Strategy was issued by Scottish Government to all health boards on 1 July 2015. The revised strategy acknowledges the continuing relevance of the key messages in CEL 11 (2013) and introduces a new emphasis on delivering agreed outcomes. Quarterly updates to Counter Fraud Services (CFS) are no longer required; instead boards are expected to report annually on their level of engagement against key activities.

Janice Sinclair highlighted recent CFS activities/updates that have taken place in NES since the last Audit Committee meeting:

- Janice Sinclair and a colleague from HR attended the 2015 NHSScotland Counter Fraud Conference (November 2015). Members noted the importance of broadening CFS engagement in NES by involving staff from other directorates.
- The Fraud Risk Assessment Methodology (FRAM) for NES has been completed and will be submitted to CFS by March 2016. **Action: JS**
- 50% of NES line managers have completed the mandatory fraud awareness training sessions. Janice Sinclair has discussed how to increase completion numbers with colleagues in OD, including the relaunch of the training as mandatory for all line managers. Janice Sinclair is also meeting with CFS in February 2016 to discuss raising counter fraud awareness amongst GP trainees.

NES has been involved in six Counter Fraud (CF) referrals during 2015-16. One case of a malware attack has been referred directly to CFS, with the NES Digital Team also sending out guidance to NES staff regarding how to guard against potential malware attacks. Of the six referrals, three have been closed, one has resulted in formal criminal charges and one is currently under investigation by Police Scotland. One other case was not taken further by CFS; however recommendations were made to update current processes. Janice Sinclair updated the committee on the details of each case and advised members of their current status.

Janice Sinclair also provided an update on the National Fraud Initiative (NFI). The next Counter Fraud update will contain a report on the outcome from the second Audit Scotland questionnaire in relation to the 2014-15 NFI exercise, which will be completed with the external auditors in February 2016.

The committee noted the Counter Fraud update and the Chair thanked Janice Sinclair for her work.

11. Risk Management Strategy

(NES/AUD/16/11)

Rob Coward joined the meeting for this item. He presented a refreshed NES Risk Management Strategy to the committee for consideration and approval.

The internal auditors reviewed the systems and processes in place to identify and manage risk within NES in late 2014. While the auditors concluded that NES has effective systems, governance structures, policies and procedures in place for the management of risk, the management recommendations identified areas for improvement including the updating of the corporate risk management strategy and the information provided to standing committees on risk. The refreshed Risk Management Strategy has responded to each of the internal auditor's recommendations.

Rob Coward highlighted the following key changes within the updated strategy:

- The internal auditors recommended that each Board Standing Committee should receive information relating to risks within its area of governance. The refreshed strategy proposes that risk reports are considered by each standing committee on an annual basis.
- The internal auditors recommended that NES implements a process to evidence the effectiveness of risk controls. The refreshed strategy proposes that members of the Planning & Corporate Governance team will check that assurances are specified for individual risk controls within IPPS (Integrated Planning & Performance System).
- The internal auditors recommended that NES enhances Executive Team oversight of risk and risk management to improve risk management assurance. The refreshed strategy proposes that directorate Risk Champions send risk registers to accountable Directors on a quarterly basis, for the purpose of review and quality assurance. This process will ensure that the Executive Team is clearly sighted on the quality of their local risk registers and are better placed to ensure alignment with corporate requirements.
- The roles and responsibilities of directorate Risk Champions, and others involved in the review of risk registers, have been clarified.

The committee welcomed the refreshed Risk Management Strategy. During discussion, the Chair highlighted the useful breakdown of risk management governance responsibilities on pages 15-18. Members noted this will increase ownership and understanding of risk management processes across the organisation. Members also discussed the importance of regular communication with directorate Risk Champions in relation to the refreshed strategy. Rob Coward will also be issuing corporate communications via *NES Express* and the NES intranet blog to ensure all staff are made aware of the changes.

Members noted the importance of directorate Risk Champions having the required skills to carry out their roles. Champions may need to influence and challenge staff regarding their local risk registers. Rob Coward confirmed that the list of current Risk Champions has been reviewed, with a view to achieving a consistent risk management process across the organisation.

The committee discussed the role of the NES Board in risk management. Members agreed that it may be useful to discuss the refreshed Risk Management Strategy at a future Board workshop, as part of a wider horizon-scanning session. **Action: CL**

The Chair thanked Rob Coward for his work and noted the significant progress NES has made in the management of risk. After discussion, the committee approved the refreshed NES Risk Management Strategy. **Action: RC**

12. Items for information

a. Audit Scotland Reports

i. Health and Social Care Integration

Members received and noted a report from Audit Scotland commenting on the progress of health and social care integration in Scotland and the significant risks which need to be addressed if integration is to fundamentally change the delivery of health and care services.

The committee noted the information contained in the report and highlighted the useful explanatory diagrams that set out the new Integrated Joint Board (IJB) structures. During discussion, members noted the complexities associated with the new IJB governance arrangements and the cultural change that will be required to enable health and social care integration. Members also discussed integration opportunities for NES including the creation of career pathways for care workers.

After discussion, the committee agreed that the report should be circulated to the NES Board. **Action: AS**

ii. NHS Scotland in 2015

Members received and noted a report from Audit Scotland reviewing the performance of the NHS in Scotland in during 2014/15 and commenting on its future plans. The audit's aim was to answer the following question: 'How well is the NHS in Scotland performing and is it equipped to deal with the challenges ahead?'

The committee noted the information contained in report, particularly in relation to the challenging financial environment and issues associated with recruiting and retaining NHS staff. Caroline Lamb commented that Audit Scotland have recently moved into office space within the Westport building. Caroline Lamb recently met with Caroline Gardner (Auditor General) and highlighted NES' interest in workforce planning data. There may be opportunities for staff from Audit Scotland and NES to collaborate on future workforce planning data going forward.

After discussion, the Chair asked Alison Shiell to check whether the NES Board had been sent a copy of this report. **Action: AS**

13. Private Meeting

a. Private Meeting between Auditors and Audit Committee Members

The Chair agreed with the internal and external auditors that a private meeting between the Auditors and Audit Committee members was not required at this meeting.

14. Date and time of next meeting

The next meeting of the Audit Committee will be held on Thursday 14 April 2016 at 10:45am, Westport 102.

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