NHS Education for Scotland

Board Paper Summary: Audit Committee Minutes

1. **Title of Paper**

   Unconfirmed Minutes of the Audit Committee meeting held on 19th October 2011: copy attached.

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

   Colin Wright

3. **Purpose of Paper**

   To receive the minutes of the Audit Committee meeting held on 19th October 2011

4. **Items for Noting**

   i) **Item 5 – Internal Audit**

   Under this agenda item the Committee received the Internal Audit reports, in addition to the Internal Audit Annual Plan Progress Review for 2011/12.

   The committee considered the following Internal Audit reports:

   a) **Workforce Management Review**

   Under this item, the committee received a report, which considered a review of workforce management arrangements. The Internal Auditors were generally satisfied with the arrangements in place and it was acknowledged that the ABC costing exercise would lead to further improvements. Members were also assured that the NES partnership arrangements had been endorsed by the Scottish Government. This report would also be considered by the Staff Governance committee.

   b) **Partnership Working - External**

   Under this item, the committee received this report on partnership working in NES. The auditors found no major weaknesses and confirmed that overall the arrangements were working effectively. As in the previous report, ABC costing would address some of the project management guidance issues. An Attitude and Awareness event, due to take place in October 2011, would also address the
recommendation relating to improving knowledge sharing within the organisation.

c) **Performance Management**

Under this item, the committee received this report on a review of the performance management arrangements within NES. This included consideration of the development and review of performance measures and key performance indicators (KPIs) and their link to the Corporate Plan. The Auditors were satisfied with the performance management arrangements in place and that management had taken steps to address the recommendations, including reviewing SMART targets for each Directorate, to ensure prioritisation against the key strategic themes.

d) **Internal and External Communications**

Under this item, the committee received this report on a review of the external communications in the organisation. A number of minor recommendations had been made, including linking the strategic themes with the corporate objectives and management had taken these on board. It was agreed that the procedures for Board members responding to media enquiries, should be made clear at the Board Members Induction stage. Media training would also be provided at an appropriate level to those who required it.

e) **Fraud Prevention Arrangements**

Under this report, the committee considered this review of fraud prevention arrangements in place in the organisation, in relation to the setting up and management of small suppliers in the purchasing system. The Internal Auditors confirmed that the organisation currently had effective controls for setting up and management of small supplier payments and Members were satisfied that steps had been taken to address the issues raised in the recommendations by the Auditors.

f) **Annual Progress Review 2011/12**

Under this item, the internal Auditors summarised the progress for Internal Audit work for the year. The IT Strategy report would now be submitted to the next Audit committee in January 2012. As it was unlikely that the PECOS Implementation audit would be required, alternative options would now be considered, including reviews of Business Processes for Pinnacle and Data Quality

ii) **Item 7 – Progress on Audit Recommendations**

Under this agenda heading, members received this report presenting them with the actions taken to date in relation to Internal and External Audit Recommendations made in 2010/11, which were still outstanding. Whilst members acknowledged the usefulness of the information, it was agreed, that the next progress report due to be circulated in 6 months, time would be submitted in a more concise and user friendly format, concentrating on high level issues.

iii) **Review of Risk Management Strategy**

Members received this report providing a revised Risk Management Strategy, which expanded on the definitions within the strategy and also articulated the
level of “Risk Appetite” of the organisation following discussion at a Board Planning Day. Members also acknowledged the usefulness of the inclusion of the regular update on the Corporate Risk Register within the Chief Executives Report to the Board.

iv) External Auditors

The new External Auditors, Deloitte, were welcomed to the meeting. David Bell summarised Deloitte’s experience within the public sector. He explained that introductory meetings had taken place with the Internal Auditors, the Director of Finance and Corporate Resources and the Chief Executive. Deloitte were also due to meet with the previous External Auditors to ensure a smooth transition process. An Audit Plan would be submitted to the Audit Committee in January 2012.

5. Recommendations

N/A

NES
October 2011
CW/
1. Chair's Welcome and Introduction
   The Chair welcomed everyone to the meeting, particularly the new External Auditors, David Bell and Douglas Gray from Deloitte.

2. Apologies for Absence
   Apologies for absence were intimated on behalf of Mr M. Wright, Chief Executive.

3. Minutes of Thirty-Eighth Meeting held on 16th June 2011 (NES/AC/11/45)
   The minutes of the previous meeting were approved as a correct record.

4. Matters Arising
   There were no matters arising requiring consideration.
5. Internal Audit Reports
   a) Internal Audit
      i) Workforce Management Review (NES/AC/11/47)

Members considered this report on a review of the Workforce Management arrangements. The review assessed the extent to which Workforce Management risks are addressed in relation to the HR Strategy, Recruitment, Manpower and Succession Planning, Remuneration and Performance, Appraisal/Development. The role of the Staff Governance Committee in workforce issues was also considered.

It was generally considered that there was commitment from the organisation to establish effective workforce arrangements, however it was recognised that completion of projects contained in the Workforce Plan would provide additional assurance of good practice. It was also acknowledged that the organisation was currently undertaking an activity-based costing (ABC exercise) to identify areas of under/over utilisation.

During discussion on the role of the Partnership Forum lay representatives, it was confirmed that the Scottish Government had endorsed the structure of the NES Partnership Forum in its current format. Members were also advised that this report would be considered by the Staff Governance Committee.

The committee noted the report and were satisfied with the management responses to the recommendations.

   ii) Partnership Working – External (NES/AC/11/48)

The committee considered the review of external partnership working in NES, which is essential for the organisation in delivering its objectives. The Auditors found no major weaknesses and confirmed overall that the arrangements were working effectively. It was also noted that there was an established process of engagement with NHS Boards and higher educational institutes.

During discussion the Internal Auditors reported that some issues had been identified in relation to the sharing of knowledge across NES and also for NMAHP Project Management Guidance (which did not reflect current practice) the Director of Finance and Corporate Resources explained that the activity-based costing exercise was now underway in NMAHP and may well lead to changes in current practice. Steps had also been taken to improve the way the organisation shares information and a workshop had been arranged for October 2011 around raising awareness and discussing the knowledge sharing tools available within the organisation.

The committee noted the report and were satisfied with the management responses to the recommendations.

   iii) Performance Management (NES/AC/11/49)
The committee considered this report on a review of the performance management arrangements within NES. This included consideration of the development and review of performance measures and key performance indicators (KPIs) and their link to the Corporate Plan. In general, it was considered that there were effective processes in place to manage the performance of the organisation and that management continued to develop the links between the strategic aims and objectives.

Discussion took place on the recommendation relating to the SMART targets, although it was acknowledged that measures had been taken to address this issue by prioritising the targets accordingly against the NES strategic themes. It was also recognised that this was a challenging exercise for NES due to the diverse range of work undertaken by the organisation. The Director of Finance and Corporate Resources also confirmed that steps were in hand to address the recommendation relating to concern that leavers were not removed from the performance database promptly.

The committee noted the report and were satisfied with the management responses to the recommendations.

iv) **Internal and External Communications** (NES/AC/11/50)

The committee considered this review of Internal and External Communications in the organisation which had been identified as key to successful change management within NES. No major weaknesses had been identified, although a number of recommendations were made, including suggestions in relation to identifying and introducing media training for new Board and SMT members. It was also recommended that actions contained within the Communications Strategy should be more clearly linked to objectives. It was acknowledged that management had taken steps to address these issues.

During discussion, it was confirmed, in line with NES guidance, that Board members should not respond directly to media enquiries, and that this point should be made clear at induction. It was agreed that training was important for a small number of senior staff and Board members who might be expected to represent NES directly in interviews with media organisations; and that also a level of training was appropriate for other staff and Board members who needed to understand the operations of the media and their responsibility in sign-posting enquiries appropriately.

**Action : CL**

The committee noted the report and were satisfied with the management responses to the recommendations.

v) **Fraud Prevention Arrangements** (NES/AC/11/51)

The committee considered this review of fraud prevention arrangements in place in the organisation, focusing on smaller suppliers i.e. payments less than £10,000 per annum. The auditors were satisfied with the controls in place, although it was suggested that there was an opportunity to improve monitoring of regular small payments to suppliers to ensure value for money it was confirmed that management were reviewing the structure of procurement and
changes were planned to improve visibility of demand at the beginning of the procurement process.

The committee noted the report and were satisfied with the management responses to the recommendations.

vi) **Annual Plan Progress Review** (NES/AC/11/51a)

Members considered a summary of the Annual Plan Progress Review for the Internal Audit for 2011/12. The planned completion dates were provided, including estimated dates when the reports would be consideration by the Audit Committee.

The Internal Auditors advised that the IT Strategy Report would now be considered at the next meeting of the Audit Committee in January 2011, to allow for the consideration of management responses. As it was unlikely that there would be a requirement to conduct a review of PECOS Implementation at this stage, possible alternative reviews had been identified, including a desktop review of Pinnacle Business Processes (to identify any gaps in the control process) and a review of a Data Quality Questionnaire being introduced by NES.

Members noted the progress to date.

6 **Update on National Fraud Initiative** (NES/AC/11/52)

Members received this report updating them on the National Fraud Initiative for 2010/11. This was the third time NES had participated in the initiative, although this was the first time both Payroll and Supplier data had been included. 63 potential matches had been investigated and no major issues had been identified.

The Deputy Director of Finance clarified the role of the National Fraud Initiative, which worked across the public sector, and could, for example, identify staff on multiple payrolls. Only one match threw up an issue and arrangements had been made to investigate best practice, to determine if this would affect NES policies.

The committee noted the report.

7. **Progress on Audit Recommendations** (NES/AC/11/53)

Members had received this report presenting them with the actions taken to date in relation to Internal and External Audit Recommendations made in 2010/11, which were still outstanding. The committee were reminded that the recommendations had not yet been signed-off by the Internal Auditors.

Whilst Members acknowledged the usefulness of receiving the detailed information provided in the document, following discussion, it was agreed that the updated document due to be submitted in 6 months time, should be in a more user friendly format, concentrating on higher level issues. Members could have access to a more detailed version online if required. **Action: CL**

David Bell confirmed that Deloitte would monitor the recommendations from the previous External Auditors. **Action: DB/DG**

The committee noted the progress to date.
8. Audit Committee Workplan 2011/12 (NES/AC/11/54)

The committee received a proposed work programme for 2011/12, following the Internal Audit recommendation that all standing committees produce a workplan for the coming year. During discussion, the issue of the Audit Scotland reports was addressed, it being emphasised that they were often out-of-date when the committee received them and the Director of Finance and Corporate Resources confirmed that the process had now been improved, to ensure that the all relevant reports would be submitted for consideration by the Audit committee meeting immediately after their publication.

Members approved the workplan for 2011/12.


Members received this report providing a revised Risk Management Strategy following the recommendations by the Internal Auditor at the meeting in April 2011. The main changes related to expanding on the definitions, to make clearer the level of “Risk Appetite”. The risk classification matrix within the strategy had also been reviewed.

During discussion, members acknowledged that it was useful receiving regular updates on the Corporate Risk Register as part of the Chief Executive’s Report to the Board. The Classification of Risk section was discussed and the Director of Finance and Corporate Resources intimated that she would confirm the accuracy of the colour coding in the document and update it accordingly.

Members also acknowledged the importance of monitoring the raising of temperature of risks i.e. cumulative risks, due to the constantly changing environment within the public sector. 

Action : CL

There was also some discussion on the definition of risks and how these corresponded to the Health Improvement Scotland definitions and it was clarified that although our risks had been expanded, they were still closely matched to the HIS definitions.

The committee approved the revised Risk Management Strategy and acknowledged the progress made in this area.

10. Update on NES Fraud and Corruption Policy (NES/AC/11/56)

Members received this report, following a recommendation from the External Auditors to update the policy to make reference to the organisations involvement in the National Fraud Initiative, to show that it forms an integral aspect of our corporate policies and strategies for preventing and detecting fraud and error. The opportunity had also been taken to update the document with the Internal and External Audit contact details.

During discussion, the Chair suggested that her business address contact details should be added to the document and this was agreed. 

Action : CL

The committee approved the changes to the Fraud and Corruption policy.
11. **External Audit**

The new External Auditors introduced themselves to the committee and provided a summary of their plan of work for 2011/12. Details of their background experience were provided, including their other public sector audit responsibilities. It was stressed that they would aim to work with the Internal Audit representatives, to avoid duplication. A smooth transition from the previous External Auditors was also anticipated.

Introductory meetings had already taken place with the Director of Finance and Corporate Resources and the Chief Executive and it was anticipated that a meeting would be arranged with the previous External Auditors in due course. An interim audit visit would be completed prior to the end of the year and the final Plan would be submitted to the next meeting of the committee in January 2012.

12. **Other External Reports**

There were no further external reports requiring consideration at this meeting.

13. **Items for Information**
   
a) **Audit Scotland Reports**

   The committee received the following Audit Scotland reports for their information and comment:

   i) **The Role of the Boards**

      Members received this report on the role of the Boards on the changing environment and the part they will play in responding to the challenges ahead. This report had previously been circulated to Board members. The role and accountability of the Boards was examined, in addition to the skills and expertise required by Board members and how Boards should operate. The report concluded with a number of questions for Board members acting as a checklist to determine if changes could be introduced to enable a more effective approach to be taken for the future.

      During discussion, it was emphasised that NES could produce evidence of good practice, in response to the recommendations contained in the report. It was, however acknowledged that public bodies could learn more form each other.

      Members noted the report.

   ii) **Improving Energy Efficiency**

      Members received this follow-up report outlining the role of the public sector in improving energy efficiency. The report also included details of the CRC Energy Efficiency Scheme and consideration as to how prepared public bodies are for the scheme.

      The Director of Finance and Corporate Resources explained that this report had limited relevance to the organisation, however, a facilities management strategy would be completed to investigate energy efficiency issues.
The committee noted the report.

iii) Scotland’s Public Finances

The committee received this report addressing the challenges facing the public sector in Scotland, in light of current and proposed spending reductions. An overview of the financial environment facing Scotland was provided, in addition to cost pressures in the public sector and suggestions on how to address these challenges. It was acknowledged that Members were aware of the financial pressures on health and other partner organisations.

The committee noted the report.

iv) Review of Community Health Partnerships

Members received this report on a review of Community Health Partnerships following the Government’s requirement that NHS Boards establish one or more CHPs in their local area to bridge the gap between primary and secondary healthcare and between health and social care. A summary of the current situation was provided, in addition to an examination of the governance and accountability arrangements for CHP. The report concluded with details of how resources are currently used and the impact of health and quality on the life of local people.

It was acknowledged that there would be opportunities for shared working resulting from the proposed integration of social care in Scotland. Members agreed that there were large variances in the service quality provided by CHPs throughout the country.

The report was noted.

v) Transport for Health and Social Care

Members received this report on the current challenges in relation to planning and delivering effective transport for health and social care providers. The report considered the importance of effective spending and improving efficiency and the need for organisations to work together to meet transport requirements. It concluded by providing a checklist to assist in the improvement of transport for health and social care.

It was acknowledged that this report would have an impact on the Scottish Ambulance Service.

Members noted the report.

14. Any Other Business

a. Private Meeting between Auditors and Audit Committee members

Lindsay Burley, Caroline Lamb, Audrey McColl and Colin Wright withdrew from the meeting for this item.

15. Date and Time of Next Meeting

Wednesday 18th January 2012 at 1.30 p.m, at Thistle House, Edinburgh.