



Minutes of NHS Ayrshire and Arran Audit Committee Meeting held on Friday 12th June 2020 at 10:00 hours via Microsoft Teams

Present Michael Breen, (Chair) Non-Executive Board Member
Sukhomoy Das, Non-Executive Board Member
Jean Ford, Non-Executive Board Member
Lisa Tennant, Non-Executive Board Member

In attendance Lesley Bowie, Chair NHS A&A
Bob Brown, Assistant Director of Finance (Governance and
Shared Services)
John Burns, Chief Executive
Derek Lindsay, Director of Finance

Joanne Brown, Grant Thornton

Karlyn Watt, Deloitte

Frances Forsyth (Minutes)

1. Apologies and declarations of interest

1.1 Apologies

Douglas Reid; Bob Martin - Non-Executive Board Members

1.2 Declarations of interests

There were none

2. Approval of Minutes

2.1 Minute of the meeting held on 18 March 2020

It was noted that the paragraph numbering was out of line with the agenda. The minute was approved as an accurate record of the meeting; the numbering would be amended.

Action: Frances Forsyth

2.2 Minute of the meeting held on 13 May 2020

The minute would be amended to reflect the appointment of Lesley Bowie as Board Chair as of 1st March 2020. The minute was approved as an accurate record of the meeting.

Action: Frances Forsyth

3. Matters arising/Action Log

- 3.1 The Audit Committee Chair noted the requirement for the audit programme to be flexible in view of the exceptional circumstances but asked that the Committee be kept apprised of changes.

Committee members recommended that the Financial Sustainability review be carried out earlier in the programme than originally planned to allow recommendations to be included in the budget cycle for 2021/22.

- 3.2 Internal Audit: Integration Joint Board – arrangements for directions

The Committee received this updated report which had been revised following discussion at the Audit Committee meeting in January 2020. The Chief Executive had explained that many of the weaknesses identified during the fieldwork had been addressed in the period between the audit fieldwork and finalisation of the report and that the previous report did not present the current position.

The revised report now took account of progress which had been made, particularly within the South Ayrshire Partnership. Two medium and one low risk recommendation were identified in the revised report for which management actions had been agreed.

The Chief Executive commented that the report was more balanced and would go through the Integration Joint Board Governance route. The steps to take forward the recommendations would be discussed between the Chief Executive and the three Chief Officers.

Action: John Burns

4. Internal Audit

- 4.1 Internal audit activity report

The Internal Auditor provided a status report on the work completed from the 2019/20 audit plan. Three reviews; HR eESS system implementation; Service redesign in Cardiology and Regional working, which were due to have been completed towards the end of the year, had been paused due to the COVID pandemic. The Committee heard that the follow-up of previous audit recommendations had also been paused. The Auditor noted that the follow-up which had been reported to the March Audit Committee meeting had shown that management had made good progress in implementing recommendations. In view of this, the Auditor proposed that they provide a follow-up report six monthly rather than quarterly moving forward.

The Auditor explained that further consideration had been given to the audit plan for 2020/21 taking into account their ability to conduct internal audits due to restrictions resulting from the pandemic. The auditor confirmed that she would work closely with management and that the programme would be flexible, adapting to the situation and risks as they emerged in the 'new future'. Initial thoughts on emerging risks suggested that the audit programme should include a review of the governance arrangements relating to the Board's response to the pandemic and of its financial controls relating to COVID expenditure; it was anticipated that this would continue to be an area of focus and discussion with the Scottish Government.

The Director of Finance asked whether the three new areas identified for the 2020/21 programme would replace the three which had not been completed in the 2019/20 programme or whether it was the intention to 'catch up' on the 2019/20 reviews at a later point. The Auditor suggested that it would be useful to retain the review of the control environment around the HR eEES system but that the Cardiac Service Re-Design and Regional Working reviews were operational rotational reviews within the overall audit programme and potentially a lower risk than other areas identified within the plan.

Outcome: The status of the Audit programme was noted and the requirement to make changes due to the Board's response to the pandemic was accepted. It was agreed that the Auditor would work with management to identify new risks and agree necessary modifications to the original audit plans. An update on the audit programme would be brought to the Audit Committee at its meeting in September.

4.2 Audit Review: Compliance with policies

The auditor explained that considerable work had been done by the Board to standardise its controlled document policies in the previous two years.

Two medium and one low risk recommendation had been identified. The recommendations related to how the organisation shares practices between lead directors and streamlining to ensure shared learning. The Chief Executive confirmed that he had already written to lead directors to remind them of their responsibilities in relation to controlled documents.

One of the Committee members asked if more central control would be helpful to ensure all policies are kept up to date and reviewed. The Auditor believed that more centralisation of the tracking of reviews had taken place and agreed to confirm this.

Action: Joanne Brown

Outcome: The report was accepted and management actions and timescales noted.

4.3 Audit review: Corporate Governance arrangements including the blueprint action plan

The review had identified a good level of compliance with the Blueprint for Good Governance (DL(2019)2). Two low risk recommendations had been made. The Chair confirmed that she would be speaking to Board members individually about completion of future Blueprint surveys and attendance at Board workshops.

The Chair of the Committee commended the management team for the work completed in this area which was evidenced by this positive audit review.

Outcome: The report was noted and would be submitted to the Integrated Governance Committee

4.4 Audit review: Cyber Security

The Auditor explained that the review had been carried out by the firm's Cyber Security team whose detailed findings had supported the work of internal audit. One medium recommendation had been identified relating to the backup policy as well as five low risk recommendations.

The Chair commented that cyber security was a key risk in every organisation and sought confirmation that this would be followed up through the Information Governance route. The non-executive member, who is also the Chair of the Information Governance Committee, confirmed that this would be the case.

Outcome: The report was noted and would be submitted to the Information Governance Committee.

4.5 Audit review: Consultant Job Planning

The Auditor explained that the Board planned to move from a manual system to an electronic tool – 'Allocate'. There had been some challenges with the roll out of Allocate which meant that at the time of the review some processes were still being done manually making it more difficult to track changes and sign off. Two medium and two low risk recommendations had been identified and assumed that Allocate would be fully implemented.

Outcome: The report was noted and would be submitted to the Staff Governance Committee.

4.6 Annual Internal Audit Opinion

The Auditor presented the annual audit opinion which contained a summary of all the work completed during the year and the number of recommendations raised. The report recognised the good practice which had been developed around the completion and follow-up of audit recommendations. Based on the work undertaken, the Head of Internal Audit had been able to provide 'reasonable assurance on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control'.

Discussion took place about whether the annual audit assurance for 2019/20 should be included in the Audit Committee's annual report. The Chief Executive explained that the annual reports for each of the Governance Committees were presented as part of the assurance process and that the reports were usually presented to the Board at its meeting in May. The timing therefore meant that the annual internal audit assurance for the current year could not be included in the Audit Committee's report. The Director of Finance noted that the Annual Audit Assurance Statement to the Ayrshire & Arran Health Board meeting in June (presented to this meeting as item 10.2) confirmed the annual audit opinion.

Outcome: The Internal Audit Opinion was noted.

5. Service Audits

The Director of Finance explained that the service audit reports were received in order to provide assurance that the services provided to the Board by National Services Scotland (NSS) for IT services and Practitioner Services were being operated correctly, as part of the annual accounts process. Both service audit reports had been approved by the Audit Committee of National Services Scotland prior to distribution to all Boards and had been shared with the Board's External Auditor.

The reports had been prepared this year by new auditors, KPMG LLP, who had been unable to gather some evidence from legacy systems and therefore the reports were 'qualified' this year. The accompanying cover letter to each of the reports explained that this related to the 'design or operating effectiveness of controls in order to meet the stated control objectives. It did not mean that the underlying transactions were necessarily incorrectly processed'.

The Director of Finance explained that Ayrshire & Arran has its own controls both at the 'front end', (from details provided to the Board by GPs and other practitioners) and the 'back end' through the Payment Verification control process – detailed at item 6.1 to this meeting. These controls provided sufficient assurance that payments made were correct. The reports had been discussed with the Board's External auditor who had confirmed that the qualification did not impact on their audit opinion. An explanation would be added to the Governance Statement before this was presented to the Board.

5.1 NSS National IT Services

The report was noted.

5.2 NSS Practitioner Services

The report was noted as above.

Outcome: The 'qualified' status of the assurance provided by the service audit reports was accepted. It was noted that the advice received from the External Auditor was that this should be disclosed in the Governance Statement.

One of the Non-Executive members suggested that in future years a summary paper be provided with the executive summary of the reports rather than the full report which had more detail than was required by the Committee. The Director of Finance agreed to this.

Action: Derek Lindsay

6. Payment Verification

6.1 Payment verification annual report

The Financial Controller explained that Practitioner Services process payments to Family Health Services' independent contractors on behalf of NHS Ayrshire & Arran. The report was presented to the Committee to provide assurance around the arrangements in place to verify the validity and accuracy of these payments. Committee members heard that the Senior Finance Manager for Corporate and Partnerships worked closely with practitioners and attended the meetings throughout the year. At these meeting payment outliers were reviewed, and routine spot checks on an ad hoc basis are agreed. The report highlighted the recoveries which had been made and confirmed that there were no matters of concern.

The Chair of the Audit Committee asked whether there would be a higher risk of fraud given the loss of income for some practitioners as a result of COVID restrictions. The Financial Controller confirmed that Counter Fraud Services were already looking at national initiatives to address this risk. The Committee would be kept up to date on this work as part of the regular Fraud Liaison report and was likely to be highlighted by the Head of Counter Fraud Services at his annual visit to the Audit Committee due to take place in September 2020.

One of the Committee members asked why this report came to the Audit Committee. The Director of Finance explained that a circular detailing the checks which must be done, says it should come to the Audit Committee as part of the assurance process around the annual accounts due to the significant expenditure on practitioner services within the accounts.

Outcome: Assurance provided by this report was accepted.

7. Governance Statement

7.1 Assurance from the Chief Executive

The Chief Executive noted that the Governance Statement listed the areas he had reviewed in order to gain the assurance required to prepare and sign off the Governance Statement. Letters received from each of the Directors provided assurance that appropriate control mechanisms were in place in their area, (copies of the letters were provided for information to Committee members). The Chief Executive explained that disclosures had been noted in the Governance Statement around the temporary pause in routine governance meetings to allow officers to focus on the response to COVID-19. Some routine issues relating to

staff governance such as i-Matter and the performance appraisal programme had also been paused.

Disclosures were also made regarding:

- the number of patients treated outwith the 12-week treatment time guarantee;
- actions identified to address recommendations for improvement identified in December 2019 in a Healthcare improvement Scotland report on the care of older people in University Hospital Ayr.

The Chief Executive confirmed that the disclosures were made in line with guidance from Scottish Government and believed that he had received the necessary assurance to sign the Governance Statement.

Outcome: The areas of assurance provided to the Chief Executive were noted and assurance from the Chief Executive was accepted.

8. Statutory Annual Accounts

8.1 Annual accounts for NHS Ayrshire and Arran – 2019-20

The Director of Finance presented the draft annual accounts for 2019/20 noting that the Board had achieved all financial targets in the year after receiving brokerage of £14.7 million in order to meet the Revenue Resource Limit.

The following areas of the report were highlighted to Audit Committee members:

- Performance report
 - Capital expenditure of £11.5 million was incurred in the year
 - The Board received £14.7 million brokerage and had an underspend of £455,000
 - An infographic provided information on the Board's performance against service delivery targets in its Annual Operating Plan
- Accountability report
 - The remuneration and staff report noted a reduction in the staff sickness rate from 5.2% to 4.8%.
 - Exit packages totalling £1 million supported a voluntary redundancy scheme
- Balance Sheet (Consolidated Statement of Financial Position)
 - The figures for 'investments in associates and joint ventures' had been updated since the accounts presented to the Audit Committee to reflect the position with the Integration Joint Boards (IJB) – the amendments did not affect the bottom line.

The Committee were advised that there were some other updates to the accounts which would be amended before presentation to the Board:

- £1.5 million was moved from 'other health care expenditure' to Primary Care Prescribing (note 3)
- Presentational issues in the remuneration report
- A paragraph would be added to the Governance Statement referring to the qualification of the IT and Practitioner Services audits.

One of the Committee members noted that the performance target numbers were quoted but that only the figures for the year end were shown which didn't demonstrate trends. The Director of Finance advised that there was narrative in the report which provided more detail on the trends; he noted that the sickness absence rate was an average over the year.

The Chair asked whether expenditure relating to COVID-19 would be accrued. The Director of Finance confirmed that £1.5 million had been received in an allocation letter, most of which was for prescribing which had been particularly high during March. It was anticipated that the Scottish Government would hope that these costs would reduce during the year so that some of the money could be recovered.

8.2 Supporting documentation to the Annual Accounts

The Scottish Financial Returns (SFR's) were provided to the Committee for information but did not form part of the audited accounts.

Outcome: The annual accounts were approved for submission to the Board.

9. External Audit

9.1 Letter of representation

The external auditor explained that this was a standard letter to be signed by the Accountable Officer following approval of the accounts by the Board. The letter confirmed that the impact of COVID-19 had been considered and deemed to be a non-adjusting event given the timing of the outbreak. The letter was presented to the Audit Committee for information only.

Outcome: The letter of representation would be signed by the Chief Executive as 'Accountable Officer' following approval of the Accounts by the Board.

9.2 Annual report

The Board's External Auditor explained that the accounts had been prepared remotely due to the pandemic and thanked Board staff for their co-operation with this.

The Auditor confirmed that based on the audit work completed to date, she expected to issue an unmodified audit opinion. The audit of the financial statements had some areas still to be completed, including incorporation of the results from the Integration Joint Boards; completion of testing on the Family Health Service accrual and testing on the remuneration report. It was not anticipated that there would be any significant changes.

The Auditor noted that there was some uncertainty about the impact of COVID-19 on property valuations but were satisfied that the valuation of the Board's estate

was appropriate and in line with RICS guidance. An 'emphasis of matter' would be included in the audit opinion to reflect this.

The audit had noted an uncorrected misstatement in the treatment of pre-payments and accruals. The errors were just above £250,000 and therefore did not impact on the 'bottom line' but the audit report had made recommendations for training of staff.

In considering the wider scope, the Auditor noted that COVID would bring considerable change but it was too early to say what the long term impact would be.

The auditor had found that Financial Management was effective; the breakeven position was in line with the additional brokerage received. It was noted that financial sustainability continued to be challenging. The auditor noted the plan to achieve breakeven in 2022/23 would require considerably more work but noted the benefits of the 'Caring for Ayrshire' plan.

Good governance and transparency and been found by internal audit and there was evidence of good progress with Health and Social Care integration; this was particularly noted in relation to South Ayrshire where a lack of progress had been noted in 2018/19.

A slight decline was noted in the achievement of some performance targets with some areas falling below the national targets but the auditor was assured that these areas were being addressed by management.

The Chair asked if there should be a 'write down' on land and building values. The Auditor responded that valuations had been done at the end of March and were in line with the wider public sector. The Director of Finance noted that assets which the Board has for sale aren't of very high value, therefore the impact of declining valuations is unlikely to be material.

Outcome: The Audit Committee noted that an unmodified audit opinion would be provided by the External Auditor and that they anticipated signing the annual accounts following the Board meeting on 22nd June 2020.

10. Assurance

- 10.1 The Director of Finance explained that the Audit Committee of the Scottish Government required a letter detailing any significant issues which the Board considered to be of wider interest. (A copy of the letter received from the Scottish Government last year was provided for reference as the letter for 2019/20 had not yet been received).

The Director of Finance was not aware of anything which required to be reported and had drafted a response on behalf of NHS Ayrshire and Arran's Audit Committee to the Scottish Government stating this.

Outcome: The Chair agreed to sign the letter on behalf of the Audit Committee in which it was stated that they were not aware of any significant issues of fraud which had arisen during 2019/20.

- 10.2 Annual audit assurance statement to the Ayrshire and Arran Board

The Director of Finance explained that the Audit Committee was required to provide an assurance statement to the Board in respect of audit work conducted around internal controls, including the Internal Audit annual opinion to allow the approval of the Annual Accounts.

Outcome: The Committee approved the statement for submission to the Board.

11 Governance and Risk

- 11.1 Tender exception report

The Assistant Director of Finance noted the exceptions to the tender process reported to this meeting. The Assistant Director and Director of Finance were satisfied that the requested waivers met the criteria set out in the Standing Financial Instructions.

The Chair of the Committee asked whether it was the intention to conduct a formal tender process for the prison service contract now that the VAT issue had been resolved. The Assistant Director of Finance confirmed that this was the case.

One of the Committee members asked whether the value quoted for the contract to provide Personal Protective Equipment (PPE) should be shown as the potential full value rather than a weekly value. The Director of Finance explained that it was unlikely that there would be a requirement to purchase equipment on the scale for which provision had been made in the tender waiver. More supplies were now being received from the National Distribution centre and full face visors were being made 'in house'.

Outcome: The Committee was satisfied that the exceptions presented were appropriate.

11.2 Off-Contract Procurement

The Committee noted emergency procurement measures which had been taken to procure some items of PPE, particularly full face visors and clinical gowns, from local suppliers. This was in response to a worldwide shortage of PPE as a result of a big increase in demand at the start of the COVID pandemic. However, the supply from the National Distribution Centre (which was free to the Health Board for pandemic stock) was now more assured, along with the manufacture of full face visors by re-deployed audiologists using 3D printing facility. This had meant that purchases from local suppliers had now been scaled down. The potential, 'worst case scenario' cost had been estimated at £40,000 per week, the actual cost had been £140,000 in total to date and little more was anticipated apart from raw materials to make the face visors 'in house'.

The Chair asked what flexibility the Health Board had in being able to choose to support local suppliers. The Director of Finance explained that supplies from the pandemic stock held by the National Distribution Centre were free of charge to the Board so local suppliers would necessarily be second choice.

Outcome: The emergency measures put in place to ensure the supply of PPE were accepted.

11.3 Revised Procurement Guidance

The Committee was provided with a copy of a letter from the Scottish Government. This detailed the relaxation of some of the rules around procurement during the COVID outbreak. This included more flexibility for Boards to liaise directly with contractors and to make payments in advance or interim payments should these be required to secure supplies. The Director of Finance noted that there had been no significant requests from suppliers for these measures but the facility was available for Boards should it be required until the end of June 2020.

Outcome: The emergency revision of procurement guidelines by Scottish Government was noted.

12. Fraud

12.1 Patient Exemption Checking

The Assistant Director of Finance explained that this was an annual statistical review of patient exemption claims for dental and ophthalmic treatment. Samples of data were taken and extrapolated to produce an estimate of potential fraud or error. The data provided for NHS Ayrshire & Arran for both dental and ophthalmic claims was marginally lower than last year and below the national average.

The Director of Finance noted that this programme tests the validity of patients who had claimed payment exemption and these figures had to be reported in the annual accounts.

Outcome: The report was noted.

13 **Any other competent business**

13.1 Audit Committee Workplan – 2020/21

The Audit Committee workplan for 2020/21 was accepted by the Committee while noting that timing and subject of internal audit reports would be flexible in light of the pandemic.

Outcome: The workplan was approved for submission to the Integrated Governance Committee.

14 **Key issues to report to the NHS Board**

- The Internal Audit programme for 2020/21 would be reviewed taking into account new and emerging risks relating to the pandemic.
- The Internal Auditor provided the annual assurance on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
- The Committee received assurance from the Chief Executive and noted the disclosures in the Governance Statement.
- The Annual Accounts were considered and recommended for approval by the Board.
- The annual report was received from the Board's external auditors in which it was confirmed that an unqualified opinion on the accounts for 2019/20 would be given.

The Chair commended the management team for the work in preparing the accounts which had enabled the Audit Committee to take place with its full agenda. He believed that this was testimony to the effectiveness of systems in operation in the organisation.

Outcome: A report will be submitted to the next Board meeting.

Action: M Breen

15. **Risk issues to report to the Risk and Resilience Scrutiny and Assurance Group.**

The Chief Executive confirmed that the uncertainty created by the Board's response to the COVID-19 pandemic was in the mobilisation plan. The Committee were advised that risks had been identified with Scottish Government and the risk

group had a meeting that afternoon, to discuss strategic risks which had arisen due to the pandemic.

The Chief Executive explained that there were several high level risks which were currently being discussed and currently managed including:

- return to normal services due to the additional cleaning requirements – it was unlikely that services could return at more than 50% capacity;
- usual risks associated with winter flu and decisions on how to administer the flu vaccine campaign safely
- changing the model for unscheduled care
- maintaining the wellbeing of the workforce
- risks associated with Brexit

A more formal report on these would come to the Audit Committee meeting in September.

Action: John Burns

Outcome: The Committee was assured that work to identify and manage risks associated with COVID-19 was underway. A report on the risks identified would be provided to the Audit Committee at its September meeting.

16. Date of next meeting

The next meeting will take place on **Wednesday 23rd September 2020 at 14:00 in meeting room 1, Eglinton House, Ailsa Hospital**

Approved by Chair of the Committee:



Date: 23/09/2020