



## Minutes

<b>Title of meeting</b>	Audit and Risk Committee	
<b>Date</b>	13 September 2013	
<b>Venue</b>	Wellington House, 133-155 Waterloo Road, London SE1 8UG	
<b>Present</b>	Derek Myers (Chair)	Audit and Risk Committee member
	Martin Hindle	Audit and Risk Committee member
<b>In attendance</b>	Bronwyn Baker	Head of Internal Audit (from minute 13/083)
	Stuart Bartlett	Internal Auditor
	Michael Brodie	PHE Finance and Commercial Director
	Simone Davis	PHE Deputy Head of Internal Audit
	Tim James	PHE Head of Risk Management
	Frances Knight	PHE Head of Corporate Governance
	Victor Knight	PHE Board Secretary
	Kate Mathers	National Audit Office, Audit Director
	Suzanne Oliver	PHE Head of Accounting Services
	Alex Sienkiewicz	PHE Chief of Staff
	David Slater	PHE Head of Financial Systems and Control (for Director of Financial Operations)
	Sally Warren	PHE Director of Programmes (for minute 13/070-13/077)
	Tim Baxter	Department of Health, Deputy Director of the Public Health Development Unit
<b>Apologies</b>	George Griffin	Audit and Risk Committee Member
	Duncan Selbie	PHE Chief Executive and Accounting Officer
	Martin Burgess	National Audit Office, External Audit

### 1. Introduction and apologies

- 13/065 The Chair opened the second meeting of the Committee and invited Martin Hindle and David Slater, who were not present at the previous meeting, to introduce themselves.
- 13/066 Apologies were received from George Griffin and Duncan Selbie.
- 13/067 The Chair noted that the quorum of the Audit and Risk Committee was three members, of whom two were to be non-executives of the Advisory Board. Unfortunately, the third committee member was unable to attend and, as such, decisions of the meeting in approving and endorsing documents and approaches would need to be ratified at the next meeting.
- 13/068 To ensure future meetings were quorate the Chair proposed that two additional independent non-executives be appointed. It was understood that such appointment needed to be undertaken through the Department of Health appointments section and the Deputy Director of the Public Health Development Unit was asked to provide the additional membership for the next meeting.

**Board  
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- 2. Minutes of the meeting of 6 June 2013 (Enclosure AR/13/013)**  
13/069 The minutes of the last meeting were **AGREED** to be an accurate record and were signed by the Chair.
- 3. Matters Arising from the meeting of 6 June 2013 (Enclosure AR/13/014)**  
13/070 The Committee noted the progress made on matters arising from the last meeting. Two Directors provided short reports on matters requested.
- 13/071 Matter arising: Delivery and governance arrangements surrounding PHE Programmes, including benefits, capability and obstacles.  
The Director of Programmes provided an overview of her Directorate's activities.
- 13/072 Nine Corporate Programmes had been set up to ensure the delivery of public health objectives: seven relating to the published priorities plus two additional programmes to cover the PHE Science Hub and the quality framework. Each had agreed terms of reference, tracked deliverables, and risk registers currently at variable stages of refinement. Each programme board was chaired by a National Executive member supported by a regional director.
- 13/073 Given the infancy of the each of the programmes many trackers of deliverables showed 'red' and 'amber' status, and examples were given of current issues of concern in the nine programmes, as highlighted by the system.
- 13/074 The Committee questioned whether the programmes were incorporated into routine work or were additional. The Director of Programmes considered that there was an issue with respect to ensuring sufficient capacity in the 15 local PHE centres in order for them to be able to respond to the totality of programme requirements. Most of the demand from programmes fell on the health improvement staff based in the Centres. There was local variation in requirements and a need to share. An integrated business planning approach would be adopted for the following year.
- 13/075 Further work would be undertaken on benefits realisation and definition of success, a process in which the Department of Health would be involved. There needed to be better understanding across PHE as to what corporate programmes should be used for. The PHE intranet would be used to raise awareness amongst staff and 'Yammer' groups were sharing across the organisation.
- 13/076 Corporate programmes currently in place were defined by requirements in April 2013. The National Executive was considering whether corporate programmes should remain fixed or become dynamic. For example, hypertension had now been agreed as a priority but it was not in the corporate programmes.
- 13/077 The reporting system on progress was evolving. Integrated reports for corporate programmes were fed into the PHE Balanced Scorecard which was shared with the Department of Health as part of the accountability arrangements with it.
- 13/078 Matter arising: Assurance on the expenditure of monies granted to local authorities for public health purposes  
The Finance and Commercial Director reported on the arrangements for local authority funds granted for public health. Public Health England was responsible for £2.7 billion of ring fenced funding provided to local authorities, and the PHE

Chief Executive was the Accounting Officer for this expenditure. It was therefore essential that an assurance framework was in place so that PHE could demonstrate the regularity of this expenditure.

- 13/079 The Finance and Commercial Director outlined the existing arrangements in place, setting out that local authorities were formally required to set out plans of how monies granted were to be spent across each of the 18 categories of spending, and they had all returned these plans. In-year there were quarterly returns against mandated and non-mandated services, with local authorities then having to report their outturn position against all 18 categories and sign an assurance statement to show that the grant had been spent on public health purposes. However, for the first year (2013/14) the year-end returns would arrive in September 2014 while PHE's annual accounts sign-off would be in June. As such there was a potential issue in the first year of PHE being able to demonstrate that the public health grant had been utilised for the purposes intended.
- 13/080 The Finance and Commercial Director set out some other existing assurance mechanisms explaining that there was soft intelligence gathered through regional and centre relationships with each Director of Public Health. The latter had a duty to make an annual report, which could include comment if spending was not on proper causes. The Chair questioned the rigour of this duty. The approach agreed with the Local Government Association was 'light touch' and was not performance management.
- 13/081 In addition, potential area-based reviews were in the process of being designed. Acknowledging this, the question remained as to how soft intelligence could be hardened in time for the year-end. The Department of Health observer clarified that the Secretary of State did have the power to request an audit of the use of funds by local authorities if he so wished where there were serious concerns.
- 13/082 It was noted that at year-end any planned underspent balances were allowed to be rolled forward within the ring fence.
- 13/083 The Finance and Commercial Director and the National Audit Office were working together on the matter and on other strands that would support the PHE Chief Executive in his responsibilities as Accounting Officer. A picture of the full assurance framework would be developed and shared in due course. The National Audit Office observed that the matter was also material in the Department of Health's accounts.

## **RISK ASSURANCE**

### **4. Strategic Risk Register (Enclosure AR/13/015)**

- 13/084 The Chief of Staff and Head of Risk Management provided the Committee with an overview of the preparation of Strategic Risk Register and the outline plans for redesigning PHE's risk management framework. PHE had commissioned an independent expert, Georges Selim, Emeritus Professor of Internal Auditing at Cass Business School to facilitate the development of PHE's risk management framework. This would take place alongside the existing work on risk management.
- 13/085 Internal and external auditors would meet with Professor Selim, to discuss risk management as part of a diagnostic phase, ending in October 2013. Members of the National Executive would be advised and engaged in the development of the new framework.

**Group Chief  
Internal  
Auditor/ NAO  
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- 13/086 The Committee noted that timely identification of operational risks was needed, together mitigating actions, providing a clear direction of travel before the financial year-end.
- 13/087 The role of stakeholders was acknowledged to be of key importance to the process(as in the example from local authorities discussed earlier in the meeting) so early engagement was recommended. The Group Chief Internal Auditor reported that there were no common methods or templates for risk across the health group of organisations. There was an opportunity for PHE to lead with a best-practice model. The Committee recommended discussion with the Department of Health of a group assurance model for consistency across the sector. It also recommended a sense test.
- 13/088 The National Audit Office commented that there was good work in progress and that an independent review of risk management systems by internal audit was in hand. However the systems would not be fully in place until the end of the year. Internal audit was reviewing risk management and this would become a component of assurance.

Head of  
Internal  
Audit Nov  
2013

#### 5. Directorate Risk Presentation – Chief of Staff

- 13/089 The Chief of Staff provided the Committee with an overview of his responsibilities and the associated risks to delivery. His responsibilities included the Chief Executive's Office, Secretariat, corporate governance, legal services and internal audit.
- 13/090 The incident reporting system IGI (Integrated Governance Information) was being rolled out across PHE. A number of its dropdown menus, used in the former Health Protection Agency, were no longer suitable and were being adapted in discussion with the National Executive to ensure they met the requirements of the business. Effective use of the system depended on the completeness of the online staff directory and action was being taken to improve this.
- 13/091 As at 1 April 2013 the key policies and procedures were made available to staff through the PHE intranet, however it would be important to ensure that a comprehensive suite of documents was in place. This was facilitated by PHE's Policy Approval Group.
- 13/092 A legislative compliance review was being undertaken by PHE's Secretariat as part of ensuring that it was delivering the duties delegated to it by the Secretary of State and other legislative requirements that applied. An internal audit review was also underway.
- 13/093 To promote fuller understanding within PHE nationally, the minutes of National Executive meetings would be published on the PHE intranet, along with other key messages for staff about the organisation.
- 13/094 The Committee **NOTED** the risks stated and the actions being taken in the Chief of Staff's area of responsibility.

#### 6. Assurance framework presentation

- 13/095 The Finance and Commercial Director provided an overview of a suggested

approach to Assurance Mapping for PHE based on the 'three lines of defence' model favoured by HM Treasury and welcomed by the National Audit Office. His views were informal, to invite comment at this stage, as they had not been discussed with the National Executive, or at any length with relevant internal governance and assurance.

- 13/096 The potential benefit of assurance maps was to summarise the assurance position on a single sheet of paper, assisting in identifying gaps and drilling down, helping the internal audit function to form a view of risk coverage and mitigation, supporting the annual governance statement, and helping the Department of Health and its own audit and risk committee with a consistent approach across the sector.
- 13/097 He showed an example generic assurance map which contained areas common to all organisations such as finance and human resources, but for operations each body would be different. The third line of defence included such things as the board, the audit and risk committee and Department of Health reviews. The second line included functional oversight and governance, the policy advisory group, committees and policies. The first line of defence was management control and reporting.
- 13/098 He gave a further example of spending controls mapped with the different assurances for each line. There was underlying written material to support each of the summary entries. The assurance map spread sheet also had a section for subjective 'red-amber-green' assessments of assurance appetite, and assurance provision, and of the outcome of the existing assurance activity.
- 13/099 The Chair noted that the proposal was impressive, but cautioned against over-engineering. There was a need to balance a quest for detail and perfection with practical benefit. The Group Chief Internal Auditor noted that those using such an assurance model were very positive about it and there would be an event later in the year to share good practice. The assurance map took time to populate but then was very valuable. The ability of the map to identify gaps and provide a strong focus on areas for attention was commended.
- 13/100 The Committee **NOTED** the proposed approach which would be taken forward with the National Executive.
- 7. Integrated Governance report (Enclosure AR/13/016)**
- 13/10 The Head of Corporate Governance presented the report, which had been slimmed down in line with the Committee's previous recommendation, and highlighted a number of key items.
- 13/102 The recent Incident Reporting Review had found that some laboratories needed to improve their incident reporting rates. The review was to be considered by the senior management team of the Health Protection directorate.
- 13/103 The proposed operating model for medical revalidation in PHE had been approved by the National Executive. A number of public health doctors had received additional training in support of Continual Professional Development.
- 13/104 The Information Governance Toolkit, setting out the standards and requirements that organisations had to meet if they were to continue to have access to NHS patient data, had been updated to include specific provisions for PHE. Each of these provisions was to be met by 4 October 2013.

**Finance and  
Commercial  
Director  
Feb 2014**

- 13/105 The Committee **NOTED** the report, and confirmed that the format should continue to be used. The incidents reported gave valuable insights to the risks managed in the organisation.

#### **INTERNAL AUDIT**

##### **8. Internal audit strategy and plan for 2013/14 (Enclosure AR/13/017)**

- 13/106 The Group Chief Internal Auditor introduced the Internal Audit Strategy and Plan for 2013/14. This was unchanged since the June 2013 meeting.
- 13/107 Internal audit had experienced delays in some parts of the organisation in helping them to begin their planned audits. Some areas of the new organisation were still developing but she did not want to drop the planned reviews as the audit work could still pay attention to the governance of the development processes. The Committee was asked for its support in obtaining engagement from the National Executive to deliver the internal audit plan.
- 13/108 The Committee affirmed the approach of continuing the reviews despite the lack of completion, and not to suspend the programme.
- 13/109 The Committee questioned whether the planned number of productive audit days was appropriate for the size of the organisation. The number of days was based on an historic value for the Health Protection Agency, and a review of productive days would be needed in the future. However, if the planned reviews were completed, there would be sufficient audit evidence to provide an annual audit opinion. The Committee asked whether internal audit had the required skill sets within the team to complete reviews within PHE. The co-sourced arrangement with the firm PwC provided all the required proficiency and resources as and when they arose.
- 13/110 Subject to ratification by the next quorate meeting, the Committee **AGREED** the Internal Audit Strategy and Periodic plan for 2013/14 and **ENDORSED** its proposed approach to prioritising the business risk review and its balance between high-level assurance and more detailed improvement support provided to the business.

##### **9. Internal audit actions change in process (Enclosure AR/13/018)**

- 13/111 The Committee considered the proposal for tightening up the procedure for changing the agreed deadlines for actions arising from audit recommendations. The Committee considered that this was a duty for the Accounting Officer, whom the Committee advised, that there was an adequate system for tracking the actions within the management structure and that the resulting decisions should merely be reported to the Committee for information.
- 13/112 In more detail, it was thought that the National Executive should take decisions on deferral, distinguishing between high, medium and low risk items, and that internal audit might amend actions rated as 'low'. The process should be "sufficiently painful" as the Treasury paper had expressed.

The Committee accordingly referred the matter to the executive, noting its views.

**Chief of Staff  
Nov 2013**

##### **10. Internal audit actions register (Enclosure AR/13/019)**

- 13/113 The Committee **NOTED** the content of the register. Only audit actions relating to risks rated as high or medium were reported to the Committee.

13/114 In respect of audit action 8854 concerning procurement, the Finance and Commercial Director advised that recruitment to the PHE procurement function had commenced. The new role would incorporate enhanced reporting of cumulative spend by product or service as required by the audit action.

**11. Internal audit progress report (Enclosure AR/13/020)**

13/115 The report included the HM Treasury metrics for internal audit activity but these were not as full as the Group Chief Internal Auditor liked, for example in expressing days expended rather than a utilisation rate. Trends would be more informative and it was confirmed that the information would be built up and reported for each quarter so trends would be apparent in future periods, and could be compared with the wider group of health bodies.

13/116 The meaning of the commercial income review being 'in scoping' was explained. This review was under discussion with the Finance and Commercial Director because of the importance to PHE of its commercial strategy. A focus would be to ensure the emerging strategy to generate commercial income was correct, with due consideration of the contribution from income generation in relation to PHE's human resource and operational outlays. He was particularly concerned to ensure that the pursuit of income did not overlook the effect on costs.

13/117 The Committee **NOTED** the completed staff expenses review, and on-going assurance in respect of government procurement card expenditure and the programme to counter bribery, fraud and theft. Many audit reviews were underway, but not completed.

13/118 The Committee **NOTED** the progress report and the movement on each audit review in the annual plan.

**EXTERNAL AUDIT**

**12. Update on external audit matters**

13/119 The NAO Audit Director reported that Public Health England was getting off the ground well. She had met with the Chief Executive. Preliminary arrangements were being made such as the opening balance sheet. The audit was in the planning phase and the audit plan for the year would be presented to the next meeting of the Committee. Value for money audits would follow in due course over a two year timescale as the Comptroller and Auditor General might choose.

13/120 The Head of Financial Services informed the Committee that audit recommendations from the legacy bodies were now closed.

**OTHER MATTERS**

**13. Transfer to ISSC1 Shared Services (Enclosure AR/13/021)**

13/121 The Finance and Commercial Director informed the Committee that PHE had been asked to sign up to the Department of Health's Independent Shared Services Centre proposal (ISSC1) for finance and procurement for both the Department and its Arm's Length Bodies provided by Arvato Systems UK and Ireland Ltd commencing 1 April 2015. Agreement in principle (subject to final due diligence) was needed by 30 September 2013. The Project Initiation Document provided had been agreed by the National Executive on the previous day, subject to a number of comments and the view of the Committee. The Finance and Commercial Director explained that this was important for the Audit and Risk Committee to be aware of as there was a fundamental reliance on the proposed system for the accounting work of PHE.

- 13/122 The Department of Health had agreed to the proposal, and its business case was financially favourable for the health bodies as a whole. The proposal would also benefit the Department for Transport, as owners of the service, as a result of the increased transaction volumes. However for PHE as an organisation the proposal did not offer a financial benefit. Any shortfall would be funded from the Department or government recurrently (subject to scrutiny of PHE's existing cost base).
- 13/123 The new shared service proposal offered benefits in procurement and gave an opportunity to refresh some areas for example redesigning of the chart of accounts and business processes.
- 13/124 The Finance and Commercial Director was confident that effective working relationships with Arvato would be built which would help to ensure that the services met PHE's requirements.
- 13/125 PHE's Head of Financial Systems and Control was the professional lead for the Finance and Procurement Shared Service Programme within the Department of Health group and would be championing PHE, ensuring the standard of service was robust and stable. Human Resources staff were also working closely with Arvato to ensure it had the right calibre of staff, particularly to meet the needs of PHE's specialist medical and scientific workforce.
- 13/126 Arvato was part of the Bertelsmann group with a background in television and publishing. It had had grown out of an internal arm providing shared services in the United Kingdom and used the Aggresso™ software.
- 13/127 The Finance and Commercial Director provided the Committee with an overview of due diligence activities being undertaken. There was a recognised risk arising from the respective ambitions of Cabinet Office and the supplier to increase market share if this led to exceeding capacity. Resilience testing both in terms of capacity and capability would be critical. If either of these the factors was unfavourable PHE would at a later stage make a go/no-go decision not to enter the shared service and would remain with its existing system until the service was fit for purpose.
- 13/128 The Committee recommended that the benefits expected from the proposal, both what was promised by the providers and what PHE wanted, should be clearly documented in the project initiation document. These should be referred to later in the project.
- 13/129 The apparent cost of implementation was £955k over three years. The Committee wished to be sure of discipline on this budget. There was also a risk to staff which was being managed. The Committee accepted that the executive had undertaken appropriate due diligence measures.
- 13/130 The NAO Audit Director kept a close watch on shared service cases. She noted the clear go/no-go stage. There were cost neutrality concerns, as elsewhere, between the negative impact on the organisation and the positive impact on the wider group. There would be a post-implementation review by the National Audit Office where a team existed for this purpose.
- 13/131 The Committee, in its role of advising the Accounting Officer, **ENDORSED** the proposal to accept the Department of Health's choice of the ISSC1 shared

**Finance and  
Commercial  
Director  
/Head of Fin  
Systems  
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Director  
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service decision.

**14. Information papers**

- 13/132 The Committee **NOTED** the Terms of Reference of the Audit and Risk Committee, updated for the recommendations of the last meeting. They would be further revised when the membership of the Committee was increased.

**15. Date of the next meeting**

- 13/133 The next meeting of the Audit and Risk Committee will be at 09.00am on Thursday 21 November 2013 at Wellington House 133-155 Waterloo Road, London SE1 8UG.

- 13/134 There was no other business and PHE staff withdrew at 12.48 pm.

**16. Meeting of members and auditors in the absence of officers**

- 13/135 The non-executive members of the committee met with the auditors in the absence of the PHE officers. There were no further actions arising.

**Victor Knight**  
*Board Secretary*  
September 2013