

**Minute of Meeting of the Audit Committee**  
held on Tuesday 9<sup>th</sup> March 2010 at 9.00am in the  
Board Room, NHS Board Offices, 14 Beckford Street,  
Hamilton

**CHAIRMAN:** Mr W Sutherland, Non Executive Director

**PRESENT:** Mr J A Anning, Non Executive Director  
Mr T Currie, Non Executive Director  
Mrs S Smith, Non Executive Director

**IN**

**ATTENDANCE:** Mrs L Ace, Director of Finance  
Mrs L Macer, Employee Director  
Mrs L Paterson, Pricewaterhouse Coopers  
Mr J Gray, Pricewaterhouse Coopers  
Mrs R Stevenson, Internal Audit Consortium  
Mrs M Holmes, Internal Audit Consortium  
Mrs C McGhee, Corporate Risk Manager  
Mr N J Agnew, Board Secretary/Corporate Affairs Manager

**APOLOGIES:** Mr P K Corsar, NHS Board Chair

1. **WELCOME**

Mr Sutherland welcomed members and attendees to the meeting. He extended a particular welcome to Mrs. Macer, who was attending her first meeting since succeeding Mr. Sweeney as Employee Director.

Mr. Sutherland highlighted the good governance standards that the Board Chair should not also Chair the Audit Committee. He reported on discussion with Pricewaterhouse Coopers about a potential conflict arising from the fact that, currently, he was undertaking the NHS Board Chair's role. He confirmed that Pricewaterhouse Coopers did not consider there to be a material conflict, given that the arrangement was for an interim period, and he sought members' views.

Members confirmed their contentment with the position, based on the interim nature of the arrangement, and the assurances provided by Pricewaterhouse Coopers.

2. **MINUTES**

The minute of the meeting held on 8<sup>th</sup> December 2009 was approved.

3. **MATTERS ARISING**

i) **Law Sale**

Mrs Ace reported that site demolitions were ongoing, as were discussions with the

Consortium. She confirmed that there would be further discussions with Pricewaterhouse Coopers about the evidence and technical adjustment on discounting that would require to be taken account of in finalising the Annual Accounts.

**THE COMMITTEE:**

1. Noted the update on the Law sale.
2. Asked to receive a further report.

Mrs Ace

ii) Audit Fee

Mr. Sutherland reported agreement with Pricewaterhouse Coopers on the audit fee.

**THE COMMITTEE:**

1. Noted the update on the audit fee.

iii) Internal Audit: Reporting to Audit Committee

Mrs Stevenson confirmed agreement with Mr. Sutherland on the basis of reporting to the Committee. She explained that this had been adjusted to focus on key issues on which it was considered that the Committee should concentrate, and advised that members views on the reporting format would be welcomed.

**THE COMMITTEE:**

1. Noted the update on Internal Audit: reporting to Audit Committee.

iv) Audit Committee Checklist

Consideration was given to a revised version of the completed Audit Committee checklist.

Mrs. Ace reported that the checklist had been completed with an acknowledgement that some further work was required in some areas. In the area of Induction Training, she reported that there was a National training course for members of Audit Committees, details of which had been provided to Mrs. Macer. She would put together a pack of information, signposting Mrs. Macer to other relevant documents, and would introduce her to key aspects of an Audit Committee operation.

Discussion highlighted the importance of ensuring that members of the Audit Committee were sufficiently independent of the other key Committees of the Board. Mrs. Ace would reflect further on the response to this aspect of the checklist, recognising that Mrs. Smith chaired the Equality, Diversity and Spirituality Committee, and that Mrs. Macer chaired the Staff Governance Committee. It was also recognised that the involvement of Audit Committee members as Chairs or members of other Board Committees, could be advantageous in terms of the breadth of view of the Board's business.

Mrs. Paterson advised that any potential conflict of interest on the part of Audit Committee members who served on or chaired other Board Committees, could be declared and minuted as part of the process for the completion of Annual Assurance Statements from the principal Governance Committees.

Mrs. Ace noted issues raised about whether the Audit Committee had considered how it should co-ordinate with other Committees that may have responsibility for risk management and corporate governance. She explained that this issue should be viewed within the totality of the Assurance Framework, and the work which Mr. Wilson was leading in relation to NHS QIS and Best Value around the Board and its

Committees, which would be the subject of a paper to the NHS Board on 24<sup>th</sup> March 2010. She advised that this, also, linked to the Internal Audit sign-off of the Statement of Internal Control.

Mrs. Ace noted the element of the Checklist relating to any areas where the Audit Committee could improve its current level of effectiveness. She highlighted the response, which confirmed that the Audit Committee would continually review the way in which business was conducted, and the need to document the review process. She explained that this, to an extent, should be reflected in the minutes of meetings, but undertook to reflect further on this matter, including around the potential contribution of an Annual Report to the Audit Committee.

Mrs. Ace noted the element of the Checklist around whether the Audit Committee sought feedback on its performance from the Board and from the Accountable Officer. She highlighted the response, which addressed the issue of feedback from the Board. She advised that the Chief Executive, as Accountable Officer, had had material input to the processes leading to the introduction of the new management arrangements for the Internal Audit function, but undertook to reflect further on the issue of feedback from the Accountable Officer on Audit Committee performance. Members noted that the current review of Board Effectiveness should also inform a view about the performance of the Audit Committee.

Mrs. Ace

#### **THE COMMITTEE:**

1. Noted the report on the Audit Committee Checklist.

4.

#### **INTERNAL AUDIT**

- i) Internal Audit Progress Report to Quarter 3 2009/10

The Committee considered an Internal Audit Progress Report to Quarter 3 2009/10 (incorporating the proposed revision to the 2009/10 Audit Plan).

Mrs. Stevenson highlighted the principal elements of the progress report which, she explained, was presented in a revised format, focussing on the key issues for the Committee. She outlined: the 7 final reports that had been issued from the 2009/10 Internal Audit Plan (infection control; penetration testing JAC; personal development plans; tendering and contracts; pharmacy, Wishaw; remuneration; budgetary control); the 6 draft reports that had been issued to Managers for consultation (fire safety; security of data held on removable media; organ retention; environmental management; environmental cleanliness; winter maintenance); and work in progress (screening programmes; use of agency and consultancy; management of non clinical claims; general ledgers). She invited comment from members on the revised reporting format, and confirmed that a further progress report would be brought to the Audit Committee in June 2010.

Members confirmed that they were generally content with the revised reporting format, focussing on the key issues arising from Internal Audit activity. Discussion highlighted the following issues for further consideration in future reporting.

Director of  
Finance

- The need, for 'limited' audit opinion, to provide additional detail about the circumstances of the audit and resolution of adverse audit findings.
- The need to clarify the level of risk associated with 'adequate' assurance, particularly in relation to substantial issues such as budgetary control.
- Clarification about whether, if implemented, the actions in response to audit recommendations would move 'adequate' assurance to 'substantial' assurance.
- The need to highlight audit recommendations, the achievement of which, would be particularly challenging.
- The need to highlight situations where expected progress in responding to

audit recommendations has not been achieved, and to assess the associated risk.

- Identification of the management postholder responding to audit recommendations.
- For audits with an 'adequate' level of assurance, inclusion of an indication of the number of issues that were considered to merit attention.

**THE COMMITTEE:**

1. Noted the Internal Audit Progress Report to Quarter 3 2009/10.
2. Asked to receive a further report.

Mrs. Stevenson

ii) **Internal Audit Follow up Report**

The Committee considered an Internal Audit Follow Up Report.

Mrs. Holmes highlighted the principal issues from the report, in relation to 7 follow up reports issued from the 2009/10 Internal Audit Plan, viz: medical records management; medical and clinical audit; pharmacy Monklands; e-fnancials; European Working Time Directive; Safer Management of Controlled Drugs; and Capital Projects.

Discussion focussed on the element of the report relating to two outstanding significant issues within clinical and medical audit, with an agreed implementation date of 31<sup>st</sup> March 2011. Mrs. Holmes explained that there was an ongoing fundamental and comprehensive restructuring of the Clinical and Medical Audit Department. She advised that some actions had been completed, and that 31<sup>st</sup> March 2011 was the date for completion of the full Action Plan.

Mrs. Holmes noted that Derogations had been granted to NHS Lanarkshire under the European Working Time Directive, in relation to emergency medicine and neonatology. She explained that these Derogations did not apply to the specialty areas which were the subject of audit testing. She confirmed that a Committee had been established with a remit to move forward contractual compliance with the EWTD requirements.

Mrs. Macer requested further detail on elements of the EWTD study. From her involvement in this area, she acknowledged that securing compliance across the system was challenging. She highlighted the fact that some staff had signed waivers, confirming their agreement to working beyond 48 hours per week, and suggested that consideration should be given to aligning this position with the NHS Lanarkshire duty of care both to staff and to patients.

**THE COMMITTEE:**

1. Noted the Internal Audit Follow Up Report.
2. Asked to receive a further report.

Mrs. Stevenson

iii) **Internal Audit Strategic and Operational Planning**

The Committee considered a report on Internal Audit Strategic and Operational Planning.

Mrs. Stevenson explained that the report was presented to provide the Audit Committee with an overview of the proposed Internal Audit Strategic and Operational Planning Methodology. She outlined the background, and highlighted the principal elements of the planning process, which would include risk scoring of the Internal Audit Plan by the Corporate Management Team.

Mrs. Ace explained that the process set out was similar to the previous planning process, but was increasingly visible, and included enhanced levels of engagement with the Corporate Management Team.

**THE COMMITTEE:**

1. Approved the Internal Audit Strategic and Operational Planning Process.
2. Agreed to consider the Internal Audit Plan in June 2010, and asked that the planning processes be accelerated for future years, enabling the Internal Audit Plan to be considered by the Audit Committee early in the financial year.

Mrs. Stevenson

6. **EXTERNAL AUDIT**

i) **Interim Management Letter 2009/10**

The Committee considered the Interim Management Letter 2009/10 Audit.

Mrs. Paterson explained that the Interim Management Letter arising from the Pricewaterhouse Coopers visit to NHS Lanarkshire during January/February 2010, was part of the audit processes.

Mr. Gray highlighted the principal elements of the Interim Management Letter around the Priorities and Risks Framework, in the areas of: service redesign and sustainability; scrutiny and governance; financial management and affordability; effective partnership working; patient safety and clinical governance; capacity to deliver; and performance management. He also highlighted the elements of the Letter, relating to: Controls; other audit and accounting matters; and the Action Plan.

Arising from discussion, Mrs. Ace explained the factors around Incremental Drift, including the financial management of pay costs as staff progressed up the pay scales. She explained that the impact of incremental drift over the next two years would be managed using headroom available from the settlement for doctors, which was lower than the provision within the financial plan. Mrs. Macer advised that, at a national level, the Staff Council was currently considering compression of some of the pay bands which, if agreed, would impact on the management of incremental drift.

Mrs. Ace explained the outcome of the Equal Pay test case, which established that Agenda for Change, if applied correctly, was equal pay proofed. She highlighted the need to await further National Guidance on the way ahead for equal pay claims, and to agree with Pricewaterhouse Coopers the management of this matter within the Annual Accounts.

Mrs. Paterson noted issues raised by Mr. Sutherland about the impact of International Financial Reporting Standards, and about Leasing. She explained that the management of IFRS and PFI within the Board's accounts should not result in Board's being penalised. She also explained that there was a requirement to strengthen the record keeping around leases.

Mrs. McGhee acknowledged issues raised in discussion about risk, and undertook to utilise the Interim Management Letter in the further review of the Strategic Risk Register.

Mrs. McGhee

Mrs. Ace noted the conclusions in relation to the SALUS Board. She confirmed that the issues highlighted would be explored further as part of the consideration of the SALUS external business.

Mrs. Ace noted concerns raised by Mrs. Macer about the lack of emphasis on Staff

Governance, Effective Partnership Working, the Staff Side input to the achievement of the sickness absence target, and staff side input via the Area Partnership Forum, to performance management, especially in relation to the development of the Financial Savings Plan. She advised that the Interim Management Letter had been shared, in draft, with all Executive Directors. Mrs. Paterson explained that the format of the Interim Management Letter was driven by the content of the Audit Scotland Priorities and Risks Framework document, which did not include a particular focus on Staff Side/Partnership issues. She explained that this issue could, perhaps, be raised with Audit Scotland and the Auditor General.

**THE COMMITTEE:**

1. Noted the Interim Management Letter 2009/10 audit.

7. **STANDING FINANCIAL INSTRUCTIONS/SCHEME OF DELEGATION**

The Committee considered revised Standing Financial Instructions and a revised Scheme of Delegation.

Mrs. Ace explained that the Standing Financial Instructions and the Financial Scheme of Delegation were the key documents outlining the Framework for Financial Governance. She advised that these documents were last updated in 2008, and were considered and approved by the Audit Committee at its meeting on the 9<sup>th</sup> September 2008. She explained that, since then, there had been a number of changes across the organisation, both in terms of roles and responsibilities, and how the organisation operated, as well as in respect of National Guidelines and other legislative changes. She advised that she, and other senior managers, had reviewed both the Standing Financial Instructions and the Scheme of Delegation prior to consideration by the Corporate Management Team on 18<sup>th</sup> March 2010 and submission to the NHS Board on 24<sup>th</sup> March 2010, for approval.

**THE COMMITTEE:**

1. Approved the updated Standing Financial Instructions and Scheme of Delegation.
2. Agreed that these documents should now be submitted to the NHS Board for final approval. Mrs. Ace

8. **FINANCE DEPARTMENT SAVINGS PLAN**

The Committee considered a report on Maintaining Financial Balance – Finance Directorate Contribution to the Savings Plan.

Mrs. Ace explained that, like all Corporate Departments, the Finance Department was committed to providing savings equivalent to 10% of its recurring budget, towards the overall efficiency target of £18.5m. She advised that the size of the reduction in budget had meant that the savings plans were being subject to an internal staff consultation which would run until 25<sup>th</sup> March 2010. She explained that the document before the Committee set out the rationale for looking at each area, and advised that changes in workload, potential technology and process benefits, and an assessment of priorities, had been used to inform the targets for each area. She advised that this considered approach, alongside a commitment to maximising staff skills through skills development, and process improvement, should lead to the achievement of the savings without loss of financial control at a critical point in time.

**THE COMMITTEE:**

1. Noted the report on Maintaining Financial Balance – Finance Directorate

Contribution to the Savings Plan.

9. **BEST VALUE**

Mrs. Ace reported on the progress of work being taken forward by Paul Wilson and Pamela Milliken on best value in relation to the operation of the NHS Board and its principal Committees. She explained, also, that Tony Gaskin was considering the means of obtaining assurance through these mechanisms, and confirmed that the product of this work would be brought to the Audit Committee in June. She explained that Audit Scotland had developed 18 toolkits for Boards to use in assessing Best Value, and highlighted the need for the Board to select two of the toolkits. She advised that proposition was to select the toolkits relating to People Management and Planning and Resource Alignment. She would have discussions with Mrs. Paterson, towards agreeing a pragmatic approach to progressing this matter.

Mrs. Ace

**THE COMMITTEE:**

1. Noted the update on Best Value.
2. Asked to receive a further report.

10. **AUDIT SCOTLAND**

The Committee considered a paper on Audit Scotland Reports issued, and the actions taken by the organisation in response.

Mrs. Ace explained that three Audit Scotland Reports had been issued since the last Audit Committee, viz: Overview of the NHS in Scotland Performance 2008/09 (10<sup>th</sup> December 2009); the Efficient Government Programme 2008/2011 (25<sup>th</sup> February 2010); and Managing NHS Waiting Times (4<sup>th</sup> March 2010). She explained that as the latter two audit reports had only just been released, these would be considered internally and brought to the next meeting of the Audit Committee in June. She highlighted the principal elements of the Overview of the NHS in Scotland Performance 2008/09, and the key actions arising from the report.

**THE COMMITTEE:**

1. Noted the paper on Audit Scotland Reports.
2. Agreed to consider the response to reports on the Efficient Government Programme 2008/2011 and Managing NHS Waiting Times, at its meeting in June.

Mrs. Ace

11. **FRAUD UPDATE**

Mrs. Ace highlighted the principal elements of the report around suspected fraud; internal investigations; the National Fraud Initiative; enhanced report of fraud; national fraud; and external reports, viz: the Counter Fraud Service quarterly report and the 2008/09 fraud report; an analysis of reported fraud in Government Departments. She explained that these two external reports were used to update local programme guides, to ensure that any weaknesses in controls were reviewed as part of the audit process.

**THE COMMITTEE:**

1. Noted the fraud update.

12. **PRIMARY CARE GOVERNANCE**

The Committee considered a report on Payment Verification and the Quality and Outcomes Framework.

Mrs. Ace highlighted the position with regard to payment verification work

undertaken by Practitioner Services and NHS Lanarkshire, around Ophthalmic, Dental and Pharmacy reports, none of which raised significant issues of concern.

**THE COMMITTEE:**

1. Noted the report on Payment Verification and the Quality and Outcomes Framework.
2. Asked to receive a further report.

Mrs. Ace

13. **RISK MANAGEMENT STEERING GROUP**

The Committee received and noted the minute of the meeting of the Risk Management Steering Group held on 14<sup>th</sup> December 2009.

14. **ANY OTHER COMPETENT BUSINESS**

i) **Amendment to Scottish Public Finance Manual**

The Committee considered a report on an amendment to the Scottish Public Finance Manual. Mrs. Ace highlighted the principal issues from the paper, with particular regard to the minor changes to the Scottish Public Finance Manual. In the sections relating to: Internal Audit; the Internal Control Checklist; and the Disposal of Property, Plant and Equipment.

**THE COMMITTEE:**

1. Noted the report on amendment to the Scottish Public Finance Manual.

15. **DATE OF NEXT MEETING**

Tuesday 8<sup>th</sup> June 2010 at 9.00am in the Board Room, 14 Beckford Street, Hamilton.

16. **MEETINGS DURING 2010**

Wednesday 23<sup>rd</sup> June 2010 at 9.00am (Annual Accounts)  
Tuesday 7<sup>th</sup> September 2010 at 9.00am  
Tuesday 7<sup>th</sup> December 2010 at 9.00am

NJA/MB

AUDIT9MARCH2010.DOC