

Lanarkshire NHS Board

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Minute of Meeting of the Audit Committee
held on 14th December 2005 at 9.00am in the
Board Room, NHS Board Offices, 14 Beckford Street,
Hamilton

CHAIRMAN: Mr W Sutherland, Non Executive Director

PRESENT: Mr D Clark, Non Executive Director
Mr T Currie, Non Executive Director
Mrs M Nelson, Non Executive Director

IN

ATTENDANCE: Mr T Davison, Chief Executive
Mrs S Goldsmith, Director of Finance
Mr I A Ross, Chief Executive, Acute Operating Division
Mr C Sloey, Chief Executive, Primary Care Operating Division
Mr C Brown, Audit Manager, Scott Moncrieff
Mrs M Holmes, Internal Audit Consortium
Mr N J Agnew, Corporate Affairs Manager/Board Secretary

APOLOGIES: Mr H Sweeney, Employee Director
Mr G Walker, Director of Human Resources
Mr N Bennett, Partner, Scott Moncrieff
Mr M Mazucco, Pricewaterhouse Coopers

1. **WELCOME AND PRELIMINARY MATTERS**

The Chairman welcomed members to the meeting.

He reminded members that at its meeting on 23rd November 2005, the NHS Board had approved amendments to the Board Committee arrangements, including approval of a proposition to dispense with the title 'Financial Governance Committee' in favour of reverting to 'Audit Committee', as this was considered to more fully reflect the Committee's key role in overall governance. The Committee noted, also, the range of other amendments to the Board Committee arrangements, which were intended to reflect the Board's preparedness for operating under the new organisational arrangements that would apply from April 2006, when the North and South Community Health Partnerships and the new management arrangements across the Acute Division would be in place.

2. **MINUTES**

There was submitted, for approval and signature, the minute of meeting of the Financial Governance Committee held on 29 September 2005.

THE COMMITTEE:

1. Approved the minute for signature.

3. **MATTERS ARISING**

a) **Finance Structure Update**

The Director of Finance reported that the revised finance structure was generally welcomed, when presented to staff at a meeting on 2nd November 2005. The proposals had also been considered by the Human Resources Forum on 5th December 2005. Implementation would see the corporate element of the structure introduced from 1st January 2006, with the remaining elements being introduced from 1st April 2006.

THE COMMITTEE:

1. Noted the Finance structure update.
2. Asked to receive a further report.

Director
of
Finance

b) **Annual Accounts 2005/06**

The Chief Executive reported that Lanarkshire was one of four Section 22 NHS Boards which, during 2005/2006, exceeded its voted budget. Whilst this, potentially, could lead to an appearance before the Parliamentary Audit Committee, it had been confirmed that the Committee would not seek to take evidence from any of the 4 Boards concerned.

THE COMMITTEE:

1. Noted the follow up report on the Annual Accounts 2005/06.

c) **Risk Management**

The Chairman referred to the discussion at the previous meeting, when the Committee had approved the Strategic Risk Register – this, along with the External Auditor's views on the Strategic Risk Register, had provided welcome reassurance to the Committee on the overall management of risk. He reminded the Committee that at subsequent meetings there would be further reports on the roll-out of the Strategic Risk Register, and that a Risk Management Annual Report would be considered by the Committee, prior to its presentation to the NHS Board.

The Chief Executive confirmed that the Risk Management Steering Group, which he chaired, would exercise oversight of these arrangements.

1. Noted the further report on Risk Management.
2. Asked to receive a further report.

Chief
Executive

4. **EXTERNAL AUDIT**

The Committee considered the Audit Scotland; NHS Overview Report (circulated) and the Patients Funds Management letter (circulated).

Audit Scotland NHS Overview Report

The Chairman highlighted the fact that the Audit Scotland NHS Overview Report contained positive comment for NHS Lanarkshire, as well as issues that the NHS Board would require to address. He highlighted the fact that while 4 NHS Boards carried Accumulated Deficits, only Lanarkshire had not added to its Accumulated Deficit, as it had achieved financial balance for 2004/2005, albeit this was achieved

through the use of non recurring funding to underpin recurring expenditure. Encouragingly, an ambitious Financial Recovery Plan to achieve recurrent financial balance had been approved by the NHS Board and was being progressed. The Chairman stressed the Committee's support for the Chief Executive and Executive colleagues in taking forward the Corporate Financial Recovery Plan. He highlighted the importance of the system continuing to make further progress in reducing the Accumulated Deficit, notwithstanding the Capital Receipt from asset disposal which would be realised during 2006/2007, and would contribute substantially to addressing the Deficit.

The Chief Executive explained the material issues relative to the realisation of the Capital Receipt in relation to the disposal of the former Law Hospital site, including the revaluation of assets, involving reconciliation of the Valuer value and the Balance Sheet value. He explained that some NHS Boards were projecting a deficit position for 2005/2006, and highlighted the emerging evidence that the significant financial uplifts which had been a feature of recent years, may reduce over the coming three years. Against this, NHS Lanarkshire would benefit significantly from the vigorous Corporate Financial Recovery Plan, particular the elements relating to expenditure control.

The Chief Executive reported that along with the Director of Finance and the Modernisation Director, he had met with the Chief Executive and the Director of Finance of the NHS in Scotland, to discuss the Board's Finance Strategy for 2005/06 and the roll forward into 2006/2007. Whilst there remained a significant reliance on non recurring expenditure, NHS Lanarkshire was performing better than budget in the current year. This suggested a potential financial year end position of a £7m surplus, non recurrently. An element of this would be available for Invest to Save, and would also be utilised to invest in reducing the Board's revenue profile and reducing the Accumulated Deficit, the payment of which was the subject of an agreed strategy with the Scottish Executive Health Department. He reported that based on discussions with the Chief Executive and the Director of Finance of NHSiS, it was unlikely that the Board would receive its next two years of Arbutnott parity funding in a single allocation during 2006/2007.

The Director of Finance endorsed the need to achieve a sustainable financial performance, given that the levels of uplift to the service would reduce over the coming years. She reported, also, on agreement by SEHD to valuations being applied from 1st April 2006, and reported that she was in discussion with the Board's Valuers about moving to more realistic valuations, which would further improve the revenue profile.

The Director of Finance reported that a prudent estimate of £5m for Arbutnott had been included in the Financial Plan for 2006/2007. Early indications from SEHD suggested that the allocation may, in reality, be £6.4m – this would be clarified prior to the submission of the Financial Plan to the Department in February 2006. It was anticipated that a further Arbutnott allocation of £5m would be available to the Board in 2007/08.

THE COMMITTEE:

1. Noted the Audit Scotland: NHS Overview Report.

Patients' Funds Management Letter

Mr. Brown advised members that the Patients' Funds Management Letter did not raise any issues that should be of material concern to the Committee.

The Chief Executive of the Primary Care Operating Division confirmed that any issues raised in the Management Letter would be addressed through management action, including the issues highlighted in relation to locations in which NHS

Lanarkshire had contracted beds.

THE COMMITTEE

1. Noted the Patients' Funds Management letter.

5.

INTERNAL AUDIT

The Committee considered Internal Audit Reports (circulated) in relation to: Activity; PECOS Application Review; Capital Charging; Sickness Management; Property Transactions; Patient Information Management System.

Activity

Mrs. Holmes confirmed that the Internal Audit Action Plan was on target for completion. She advised that future reports to the Committee may focus only on the more material issues and concerns. Members welcomed this approach to reporting to the Committee.

PECOS Application Review

The Director of Finance highlighted the principal issues arising from the report on PECOS which, she emphasised, was a national, Scotland-wide system. She advised that the issues raised within the report would inform the pursuit of relevant issues with National Service Scotland, which managed PECOS.

She acknowledged the need to undertake further work to address the misalignment between Goods Receipt Notes and Invoices. She highlighted the need for further discussions with National Services Scotland about the future position of PECOS within the overall context of progress of the National Shared Services Project. She would take this issue forward with the Head of Procurement at NSS and report further on the outcome to a future meeting of the Committee. She confirmed, also, that the Category 1 concern, highlighted within the Audit Report, would be addressed as a priority.

Director
of
Finance

Capital Charging

The Director of Finance advised that there were no fundamental or material issues raised within the Report. She explained that 2006/07 would see the production of a single Fixed Asset Register, and full implementation of e-financials.

Sickness Management

Members noted that the issue of sickness management issue had been raised, also, within the Audit Scotland: NHS Overview Report.

The Chief Executive reported on discussions on this issue at the Staff Governance Committee. This had resulted in an agreed policy and approach to sickness management, and a Project Manager had been appointed to lead the piloting of this approach in some designated areas. The Director of Human Resources would be asked to progress this matter at an early date.

The Chief Executive confirmed, also, that funding was available to commence Occupational Health Service Extra as part of a national initiative, and he explained the elements of the initiative.

The Chief Executive acknowledged the need, fundamentally, to improve efficiency in the capturing and recording of sickness management data, including the developed use of the Empower system, which sat within Payroll. The issue of meaningful sickness

absence data was inextricably linked to the need for improved basic workforce data, and the need to address these issues at the earliest opportunity was acknowledged. In the first instance, the next report to the Staff Governance Committee on this issue, would be shared, also, with members of the Audit Committee.

Employee
Director

Property Transactions

The Chief Executive of the Acute Operating Division highlighted the principal elements of the report. He explained the organisational changes to the Property and Support Services Department and advised that this should, increasingly, lead to a single system approach when addressing relevant issues.

The Director of Finance confirmed that the system adhered rigidly to the Property Transactions Handbook.

The Director of Finance also reported in detail on the relevant issues in relation to the closure of the sale of the former Law Hospital site, including: Outline Planning Permission; the South Lanarkshire Council position; Scottish Water; and the achievement of Virtual Certainty. She highlighted the relevant issues in relation to the Missive Deadline of September 2006, towards the completion of the transaction within 2006/2007 Annual Accounts. She also explained the implications of the need to revalue the asset of March 2006, including the potential financial exposure that this would create.

The Chief Executive of the Acute Operating Division confirmed the Property Advisor's confidence that the initial Capital Receipt was realisable. He and the Director of Finance would bring specific reports on this issue to the next meeting of the Committee – the Property Advisor would also be invited to attend.

Chief
Executive
Operating
Division

Patient Information Management System

The Chief Executive of the Primary Care Operating Division highlighted the principal issues arising from the report. He explained that the Division was constrained in its ability to address some of the issues raised, because the PIMS software was no longer under development. It would be necessary, therefore, to accept the risk associated with this issue. He confirmed, however, that the procedural matters highlighted were being addressed, and highlighted the need to implement the recognised processes in relation to matters which had consequences for staff.

THE COMMITTEE:

1. Noted the Internal Audit Reports on: Activity; PECOS Application Review; Capital Charging; Sickness Management; Property Transactions; Patient Information Management System.

6.

INVOICE QUERY ACTION PLAN

The Committee considered an Invoice Query Action Plan (circulated).

The Director of Finance highlighted the principal issues arising from the Report, as they related to Creditors and to Procurement. She acknowledged the need to undertake further work to more clearly define what could be considered to be a reasonable level of performance, and this would be informed by the review of monthly reports.

Mr. Brown confirmed that Scott Moncrieff was also not in a position to define a

reasonable level of achievement. He explained that there had been a target for Acute Services for the number of outstanding invoices at any one time. However, the External Auditors concerns related more to the fluctuations in performance in this area.

THE COMMITTEE:

1. Noted the Invoice Query Action Plan and confirmed its acceptance of the Plan.
2. Asked to receive a further report.

Director
Of
Finance

7. **FINANCIAL SYSTEM UPDATE**

The Director of Finance reported that Explore IT had been commissioned to take forward the work and had commenced approximately 2 weeks previously. Fundamental to the progress of the work would be a series of workshops with key users of the system. An implementation plan would be drawn up which would see the removal of walls by 1st April 2006. The Director of Finance confirmed that there were robust project management arrangements in place.

THE COMMITTEE:

1. Noted the Financial System Update.
2. Asked to receive a further report.

Director
of
Finance

8. **ANY OTHER COMPETENT BUSINESS**

8.1 **Internal Audit**

The Director of Finance reported that the current contract with Pricewaterhouse Coopers for the management of the Internal Audit Service was due to end on 31st March 2006. Given that the National Shared Services Initiative would include a component of internal audit within its remit, she proposed that until further clarity on the position was available, the contract with Pricewaterhouse Coopers be extended for 3 months from April 2006 – this would allow completion of the Internal Audit Plan 2005/2006 and agreement on the Internal Audit Plan 2006/2007. This work would link with the External Audit arrangements, given that this was the last year when Scott Moncrieff would be the Board's External Auditors, due to the rotation policy that was in place. The Director of Finance would bring further information in this regard to a future meeting of the Committee.

Director
of
Finance

THE COMMITTEE:

1. Approved the extension of contract with Pricewaterhouse Coopers for the management of the Internal Audit Service for a 3 month period from 1st April 2006.
2. Asked to receive a further report.

Director
of
Finance

9. **DATES OF FUTURE MEETINGS**

Wednesday 15th March 2006 at 9.00am – at this meeting, the Committee would consider specific reports on the sale of the former Law Hospital site and the year end forecast 2005/2006, along with 2006/2007 prospects.

Director
of
Finance

Thursday 29th June 2006 at 9.00am –this meeting of the Committee would specifically be to consider the Annual Accounts 2005/2006, and would be followed by a meeting of the NHS Board at which the Board would be asked formally to adopt the Annual Accounts.

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