

Minute of Meeting of the Audit Committee
held on Tuesday 12th September 2006 at 9.00am in the
Board Room, NHS Board Offices, 14 Beckford Street,
Hamilton

CHAIRMAN: Mr W Sutherland, Non Executive Director (Chair)

PRESENT: Mr T Currie, Non Executive Director
Mr J A Anning, Non Executive Director

IN

ATTENDANCE: Mr P K Corsar, Chairman, Lanarkshire NHS Board,
Mrs S Goldsmith, Director of Finance
Mr I A Ross, Director, Acute Services
Mr C Sloey, Director, North Lanarkshire Community Health
Partnership
Mr N J Agnew, Corporate Affairs Manager/Board Secretary
Mrs C McGhee, Head of Risk Management (up to item 4d)
Mrs M Holmes, Internal Audit Consortium
Mrs L Paterson, Engagement Director, Pricewaterhouse Coopers
Mr M White, Engagement Manager, Pricewaterhouse Coopers

APOLOGIES: Mrs S Smith, Non Executive Director
Mr H Sweeney, Employee Director
Mr T Davison, Chief Executive

1. **WELCOME**

The Chairman welcomed members to the meeting. He extended a particular welcome to Mrs. Paterson and Mr. White who were attending their first meeting of the Committee since the appointment of Pricewaterhouse Coopers as the Board's Appointed Auditors, and to Mrs. McGhee, who was attending for the discussion on the Risk Management Strategy.

2. **MINUTES**

The minute of the meeting held on 29th June 2006 was submitted for approval and signature.

THE COMMITTEE:

1. Approved the minute for signature.

3. **MATTERS ARISING**

a) **Internal Audit Follow Up**

The Director of Finance referred to discussion at the previous meeting about Priority 1 recommendations in relation to IM & T issues. She reported that Mrs. Holmes had

been working closely with the General Manager for IM & T about the response to the audit findings, and the General Manager would submit a report to the Risk Management Steering Group, in order that the RMSG might form a view about the management of any risks, especially those where compliance was dependent on suppliers' response. Following consideration by the Risk Management Steering Group, the matter would be reported further to the Audit Committee.

THE COMMITTEE

1. Noted the report on internal follow up in relation to priority 1 recommendations for IM & T.
2. Asked to receive a further report.

Director of
Finance

4. **GOVERNANCE ISSUES**

a) **Law Sale**

The Committee considered a report on the Law sale (circulated).

The Director of Finance explained that missives had been concluded on the sale of the site of the former Law Hospital, on 31st March 2005. The missives had 30th September 2006 as the date by which outline Planning Consent must be achieved by the developers, and the long stop date for the completion of title transfer was 30th September 2008. She highlighted the principal issues in relation to Planning Consent, which had been granted by South Lanarkshire Council, subject to agreement on the Section 75, relating to specific transport requirements in connection with the planned development. She also outlined progress in relation to title transfer. She advised that NHS Lanarkshire had entered into discussions with the developers, to try and achieve the transfer of titles for the Law site by 31st March 2007. This was essential for NHS Lanarkshire to record the sale through its accounts ensuring, subject to all other financial issues, that the financial plan for 2006/07 was achieved. She emphasised that nothing other than title transfer would allow the sale to be recorded in the accounts. She outlined the principal issues in relation to valuation, and highlighted the belief that the Law site would remain at its current valuation within the accounts of NHS Lanarkshire. This was on the basis that nothing had significantly changed regarding the Law site since its revaluation. She explained that if the sale completed by 31st March 2007, there would be no revaluation. If, however, the sale did not complete, there was nothing to require revaluation subject to the sale progressing within the timescales contained within the existing missives. If statutory consents could not be obtained, the sale would not progress and the site may be revalued downwards as, by implication, it would not be capable of being developed for housing purposes. An opinion on this had been sought from both the property adviser and the District Valuer, and both appeared to support this viewpoint.

The Director of Finance stressed that the sale of the Law site, in terms of title transfer, remained a significant risk for NHS Lanarkshire. She reassured the Committee that every effort was being made to pursue a successful conclusion to this issue, but explained that it must be recognised that the developers faced their own risks in bringing forward the title transfer in advance of the likelihood of achieving all of the statutory consents. She advised that a meeting was being arranged within the first week of October with the developers in order to secure an understanding of the likely outcome for the early title transfer, ensuring that all options had been taken to try and ensure a successful outcome was achieved. The Director of Finance highlighted a further risk, arising from a review in Treasury, which could result in any gain on sale accruing to the Capital Resource Limit (CRL) as opposed to the Revenue Resource Limit (RRL) from 2007/08.

THE COMMITTEE:

1. Noted the update on the Law sale.

2. Asked to receive a further report.

Director
of Finance

b) Shared Services Project Update

The Committee considered an update on the National Shared Support Services Project (circulated).

The Director of Finance explained that the report was intended to provide members of the Committee with a progress report on the National Shared Support Services (NSSS) Project, and to make members aware of some of the issues which were currently being shared with the Shared Services Project Team both at a national and local level. She reminded members of the background to the issue and explained that the future NSSS organisation would have a Finance Hub, a Payroll Hub and 12 Spokes, based on the mainland Health Board areas, and possibly a further 3 Spokes if it was decided to locate a Spoke on each of the Island Boards. She advised that each Board had been invited to submit a bid for either or both Hubs in October 2005, and explained that NHS Lanarkshire had bid for both, along with another six Boards. The chosen location for the NHS Lanarkshire proposal was Eurocentral for the Finance Hub and Strathclyde Business Park for the Payroll Hub.

The Director of Finance outlined progress in the NSSS Project to date. She highlighted a concern expressed by the NSSS Board that it was not suitably empowered to deliver the Strategy, and confirmed that urgent discussions on this issue were being held with SEHD. As a consequence, the Business Case could not be completed until a number of key issues were resolved. She stressed that the National Project Team continued their work, carrying out a full and thorough assessment of the Project to produce a realistic, detailed and robust revised Project Plan and timetable for NSSS implementation across all NHS Boards.

The Director of Finance emphasised that all discussion and activities relating to the NSSS had been, and continued to be, conducted within Lanarkshire in partnership with the local Project Board and Senior HR personnel. She explained that there were, however, concerns related to the aspiration of the Shared Services Project Team, as well as local management issues caused by uncertainty. She highlighted the principal areas of concern in relation to the Accounting Review; Accountability; and Staffing. She stressed that the Shared Services Project Team had reached a critical stage in its development, and that a recent meeting of Directors of Finance had confirmed support for the direction of travel. However, notwithstanding this support, there was a concern that by pushing the boundaries of the Shared Services Project into accounting and reporting, without absolute clarity of what this meant in practice, local governance may be compromised. She explained that members of the Audit Committee were asked to note this concern, but to recognise that work was taking place to ensure that Shared Services were delivered in a way that met the Projects and NHS Lanarkshire's objectives for finance.

The Director of Finance highlighted a concern in relation to the move of the Project away from the transaction – based model anticipated, which would not produce the envisaged savings. She advised that Shared Services, as described originally, would produce benefits in financial accounting and management accounting terms. She explained that the Project was looking to NHS Lanarkshire to identify posts which would contribute to savings, but NHS Lanarkshire remained thoughtful about this approach. She stressed that NHS Lanarkshire continued to support the principle of Shared Services, but that there was now a lack of confidence about the ability of the Project to go beyond its original remit.

In discussion, Mr. Brown advised that the Efficient Government Agenda and the NSSS Project were, as yet, not well integrated.

THE COMMITTEE:

1. Noted the update on the National Shared Support Services (NSSS) Project.
2. Confirmed support for the position as outlined by the Director of Finance.
3. Asked to receive a further report.

Director
of Finance

c) Payment Verification

The Committee considered an update report on payment verification – information from NSS Practitioner Services (circulated).

The Director of Finance explained that quarterly Ophthalmic and Dental Reports had been received on a regular basis and that a joint meeting had taken place every quarter to review the content of the reports. She advised that Pharmacy reports had now been received for the full year of 2005/06, with the last report for the quarter ended March 2006 received in August. She advised that quarterly Medical Reports had been issued for global sum, additional services and enhanced services throughout the year, and these had been reviewed at quarterly meetings. She also advised that payment verification visits would be arranged for January 2007 to conduct a post-payment verification process for global sum, additional services and enhanced services, and she highlighted the position in relation to visits for the Quality and Outcomes Framework process.

THE COMMITTEE:

1. Noted the update report on payment verification information from NSS Practitioner Services.
2. Asked to receive a further report.

Director of
Finance

d) Risk Management Strategy

The Committee considered the draft Risk Management Strategy (circulated).

Mrs. McGhee highlighted the principal elements of the Strategy, which had been considered by the Risk Management Steering Group on 4th September 2006. She reminded members that the Committee had previously considered the Risk Management Annual Report. She highlighted the section of the Strategy dealing with implementation, and emphasised that success of the Strategy would be dependent on both sharing the objectives with all stakeholders and enabling effective implementation across NHS Lanarkshire. She outlined the implementation arrangements, and emphasised that the Strategy would be reviewed every three years or earlier, where significant change was required, and/or requested through the Risk Management Steering Group.

The Chairman reminded members that the Committee had previously discussed Risk Management, within the context of ensuring that risks were managed within a Framework which would ensure that they would be addressed.

Members noted the section of the Strategy dealing with Committee responsibilities and accountability, encompassing the roles of : the Risk Management Steering Group; the Health and Clinical Governance Steering Group; the Occupational Health and Safety Management Group; and other specialist Committees. Within the chart setting out the Risk Management Reporting Structure, the position of the Acute and Community Health Partnership Management Teams, reporting to the Risk Management Steering Group in a prescribed format, was noted.

The Chairman highlighted the extent to which the NHS Board and the principal Governance Committees viewed the Risk Management Steering Group as a key

reference point. He also highlighted the need to minimise unnecessary overlap whilst ensuring that accountabilities were clearly defined and pursued.

It was suggested that it would be helpful for the Committees' contributing to the Risk Management process and their key responsibilities to be mapped out and colour coded. Board Secretary

Mr. Brown reminded members that Scott Moncrieff had previously commented on the need to embed risk management within the system. He complimented the Strategy, and emphasised that risk management should be a simple process, clearly embedded. He stressed that the Risk Register should be used on a daily basis, and should be subject to ongoing updating.

Mrs. Paterson highlighted the section of the Strategy setting out Board Level Accountability, and sought clarification on the means through which the Audit Committee would discharge its responsibilities, including in relation to the level of reporting to the Committee.

The Chairman explained that the Committee would routinely receive the Risk Management Annual Report, and would also receive assurances that the Risk Management Steering Group had in place a Strategy and Workplan with Executive Director designated responsibilities. He confirmed that the Committee had previously had available the schedule of Executive Director responsibilities, including reporting responsibilities. He highlighted the extent to which ongoing executive action on risk management would be key to the implementation of the Strategy. He suggested that a further means of assurance to the Committee might be the routine availability of minutes of meetings of the Risk Management Steering Group for consideration.

The Board Chairman advised that from his perspective, including attendance at the Risk Management Steering Group and at the recent NHS QIS Health Governance and Risk Management Review, he was now content that there was greater clarity in relation to the Risk Management arrangements.

The need was highlighted for robust mechanisms for two way communication on risk management. The Director of the North Lanarkshire Community Partnership highlighted the role of the Divisional Partnership Forum in relation to risk management, through considering an agenda for action from the Risk Register. He stressed, also, that local General Managers each operated a forum with staff member and staff side input, which included risk management. The Director, Acute Services, confirmed that a similar arrangement operated within the Acute Division, through hospital site groups with staff, including clinical staff, input, drawing on data from the Datix system.

In the area of Risk Management Objectives, the Director of the North Lanarkshire Community Health Partnership explained that reporting was encouraged through an open system, on the basis that this would contribute to the identification of action to improve quality, rather than adopting a blame culture which might discourage reporting. In discussion on Risk Management in Partnership, there was recognition of the value of having alignment of common systems between partners. Mrs. McGhee confirmed that work in this regard was under development with the Local Authorities and other key partner agencies.

Mrs. McGhee advised that, pending some further discussion in other Forums, the draft Risk Management Strategy would be submitted to the NHS Board for consideration and approval.

THE COMMITTEE:

1. Confirmed its contentment with the Draft Risk Management Strategy.
2. Noted that the Strategy would be submitted to the NHS Board for approval.

5.

EXTERNAL AUDIT

a) **Final Annual Report 2005/2006**

The Committee considered the Annual Report to Lanarkshire Health Board and the Auditor General for Scotland 2005/2006 (circulated).

Mr. Brown was heard in detailed explanation of the principal elements of the Annual Report which, he stressed, contained no fundamental changes to the version considered by the Committee at its meeting on 29th June 2006, as part of the Annual Accounts approval process. He explained that, to the previous version, had been added Management Comments and an Action Plan.

Mr. Brown highlighted from the Summary within the report, the principal issues in relation to: Governance; Performance and Finance. In particular, he highlighted the Governance finding that the Board continued to have difficulty appointing a Non-Executive member with recent and relevant financial experience, as required by the SEHD's Audit Committee Handbook. Given this, it was agreed that co-option to the Committee of an individual with the required financial experience would remain an option.

It was agreed that paragraph 5.5.4 of the report, relating to reliance on non-recurring funding and capital to revenue transfers, should be amended to reflect the fact that the Board still anticipated achieving a small surplus against its RRL in 2006/07, through the sale of surplus estate.

The Director of the North Lanarkshire Community Health Partnership highlighted paragraph 5.5.5 of the report, relating to the Prescribing Underspend. He suggested that this did not fully recognise the contribution of General Practitioners and others to the prescribing underspend, with £11.9m of savings having been achieved in recent years.

In discussion on paragraph 5.12.1 relating to Management Arrangements, the distinction between cash releasing savings and time releasing savings, and the relationship with the Efficient Government Review, were highlighted.

The Director of Finance confirmed there had been demonstrable delivery of cash releasing savings. However, the time releasing savings were more recent, relating to the Consultants Contract and Productivity, where demonstrating success had a longer lead time.

Vacancy management, and its contribution to efficiencies without impact on productivity, was noted. Against this backdrop, the reference within this section to the Board not having achieved any time releasing savings would be altered to indicate that the Board had not yet demonstrated any time releasing savings.

Scott
Moncrieff

The Chairman expressed his and the Committee's appreciation to Mr. Brown and to Scott Moncrieff for the way in which they had discharged their responsibilities as the Board's Appointed Auditor throughout the term of their appointment.

THE COMMITTEE:

1. Noted the Annual Report to Lanarkshire Health Board and the Auditor General for Scotland 2005/06.

b) **Efficient Government Report**

The Committee considered the NHS Lanarkshire Efficient Government Review Report (circulated).

Mr. Brown highlighted the principal elements of the report. He explained that the Efficient Government Initiative had now incorporated some assumed efficiency savings into annual financial settlements, presenting an immediate challenge as significant efficiency gains through service redesign were likely to take longer than one year to be fully realised. He advised that failure to achieve the level of savings anticipated would increase financial pressures and may impact adversely on the quality of services provided. He stressed that in order to claim an efficiency saving, NHS Boards needed to demonstrate that service outcomes had been maintained or improved, presenting a real challenge to evidence the link between resources and performance measurement. He advised that all NHS Boards needed to embrace the Efficient Government agenda and establish a clear programme for delivering efficiency savings, ensure effective leadership throughout the process, and monitor the effectiveness of change programmes. In so doing, NHS Boards needed to consider: what services to deliver and whether these were the right services to provide; whether current levels of services added the most (or 'best'), value to local communities; and whether they were delivering these services in the most appropriate and efficient way (including consideration of the scope for joint working). He highlighted the main findings in relation to planned savings in the areas of: estates; non-clinical support services; procurement; ward rationalisation; cross-boundary flow; corporate management; workforce cost reductions; junior doctors bandings; other Cash Releasing Efficiency Savings.

Mr. Brown highlighted the conclusions to the report, as follows;

- It should be a key concern to the Board that to date no time releasing savings have been identified.
- The Board should seek to establish a monitoring system which will enable them to measure and demonstrate the reinvestment of these savings into frontline services.
- NHS Lanarkshire should identify opportunities for delivering joined up support services with other public sector organisations.
- The Board is currently engaged in a shared services and joint working arrangements, but should consider options for further joint working or shared service delivery.

The Director of Finance suggested that the issue of time releasing savings should be isolated in the Corporate Recovery Plan and Local Delivery Plan reporting, and included quarterly in the Finance Report against Efficient Government. It was agreed that the issue of time releasing savings would be considered further by the Corporate Management Team, including to confirm that all savings were being captured, with a further report being brought to the Committee at its next meeting.

Director of
Finance

THE COMMITTEE:

1. Noted the NHS Lanarkshire Efficient Government Review Report.
2. Asked to receive a further report.

Director of
Finance

c) **Audit Approach for 2006/2007**

The Committee considered the draft Audit Approach for 2006/07 from Price Waterhouse Coopers (circulated).

Mrs. Paterson highlighted the principal elements of the audit approach, within the context of the Code of Audit Practice. She also highlighted the obligations on Price Waterhouse Coopers under the Code. She stressed the fundamentally practical approach which Pricewaterhouse Coopers would adopt in pursuing its audit remit. She also highlighted the key challenges and opportunities facing NHS Lanarkshire and the audit timetable and outputs. She outlined the approach to Audit Fees, and advised that at the time of the report, both the fee and Audit Scotland's central

overheads had yet to be agreed. She enquired whether there were any other key issues which should be included in the audit approach.

The Director of the North Lanarkshire Community Health Partnership highlighted the Local Delivery Plan, in areas other than Waiting Time targets, where currently information systems were not capable of producing the data to inform management actions that would enable delivery of the targets, in the same way as for waiting times. The Director, Acute Services, suggested that the audit approach should further reflect the range of other waiting time targets, and he undertook to provide additional information in this regard. He highlighted, also, the need for the audit to also recognise Delayed Discharges as a target.

Director,
Acute
Services

The Board Chairman suggested that it would be appropriate for the audit approach to include linkages between the Acute Division and the North and South Lanarkshire Community Health Partnerships.

THE COMMITTEE:

1. Accepted the audit approach for 2006/07, subject to amendment to reflect the issues discussed. PwC
2. Asked to receive the audit approach for 2006/07 in its final form. PwC

The Director of Finance reported on discussions with Mrs. Paterson in relation to the reference by Elaine Smith, MSP to Audit Scotland, and the request by Audit Scotland to Pricewaterhouse Coopers as the Board's Appointed Auditor, to take forward an investigation, around the concerns raised by Elaine Smith in relation to Green Book Treasury Guidance on Investment in Development.

Mrs. Paterson advised that she and Cameron Revie of PwC were due to meet with Barbara Hurst of Audit Scotland to scope out the terms of the Audit investigation and to agree a timescale for its completion.

THE COMMITTEE:

1. Noted the report on the Audit Scotland and Pricewaterhouse Coopers response to the reference by Elaine Smith, MSP to Audit Scotland.
2. Asked to receive a further report. Director of Finance

6. **INTERNAL AUDIT**

a) **Annual Operational Plan**

The Committee considered the Internal Audit Annual Operational Plan 2006/07 (circulated).

Mrs. Holmes reminded members that the Draft Plan had previously been considered by the Committee at its meeting in March 2006. She confirmed that the version before the Committee included some minor amendments which reflected discussion during the intervening period with individual Executive Directors.

THE COMMITTEE:

1. Approved the Internal Audit Annual Operational Plan 2006/07.
2. Asked to receive further reports. Internal Audit

b) **Activity Report to 31st August 2006**

The Committee considered the report on Internal Audit activity to 31st August 2006 (circulated).

Mrs. Holmes highlighted the principal elements of the report. She advised that the discussions with individual Executive Directors in relation to the Annual Operational Plan, and Divisional meetings, would contribute to harmonising the Internal Audit process.

THE COMMITTEE:

1. Noted the report on Internal Audit Activity to 31st August 2006.
2. Asked to receive a further report.

Internal
Audit

c) **Corporate Governance and Audit Group**

The Committee considered the minutes of meetings of the Corporate Governance and Audit Group held on 13th January 2006 and 28th April 2006 (circulated).

THE COMMITTEE:

1. Noted the minutes.
2. Agreed that future reporting to the Committee should be on the basis of a summary report on key issues.

Director of
Finance
Internal Audit

d) **Property Transaction Monitoring**

The Committee considered a report on Property Transaction Monitoring 2005/06 (circulated).

The Committee noted that the purpose of the Audit was to review and assess the property transactions concluded in the year to 31st March 2006 and to ensure that the procedures applied in those transactions conformed to the advice, guidelines and instructions contained in the NHS Scotland Property Transactions Handbook. It was noted, also, that the review was undertaken in accordance with the 2006/07 Operational Audit Plan.

Mrs. Holmes highlighted the conclusion to the review, viz: that the procedures and controls laid down by management were adequate with the exception of a minor issue in relation to the procedure for receiving payment for the ground lease for the crèche at Hairmyres Hospital.

THE COMMITTEE:

1. Noted the report on Property Transaction Monitoring 2005/06.

7.

INTERNAL AUDIT TENDER

The Committee considered an update report on the current status of the Internal Audit Tender (circulated).

The Director of Finance outlined progress following the placing of a notice in the European Journal on 4th August 2006, indicating that NHS Lanarkshire wished to seek notes of interest from qualified organisations with the ability to take Strategic Management Responsibility for NHS Lanarkshire's Internal Audit Organisation. She advised that by the due date of 7th September 2006, notes of interest had been received from 11 companies, to whom tender packages would be sent, that day, with responses to be received by mid day on 20th October 2006. The Director of Finance highlighted the intention that an analysis of the tenders would allow shortlisting to take place, with up to four companies being invited to make presentations and representations in support of their proposals, with a provisional date of 7th November 2006 having been set aside for these presentations to take place. She advised that the timetable set out

should enable the successful company to be in place by 1st December 2006. She highlighted the intention that the contract would be for 16 months, with a possibility to extend the period by up to 3 years. She stressed that the tender process had been, and would continue to be, carried out in full compliance with European Rules relating to Public Procurement.

THE COMMITTEE:

1. Noted the update report on the current status of the Internal Audit tender.
2. Confirmed its contentment with the process outlined.
3. Asked to receive a further report.

Director of
Finance

8.

DATES OF FUTURE MEETINGS

Tuesday 12th December 2006 at 9.00am.
Tuesday 13th March 2007 at 9.00am.