

**Minute of Meeting of the Audit Committee
held on 12 December 2006, at 9.00 am 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
Mr H Sweeney, Employee Director

IN ATTENDANCE **Mr N J Agnew, Corporate Affairs Manager/ Board Secretary**
Mr P K Corsar Chairman, NHS Board
Mrs S Goldsmith, Director of Finance
Mrs M Holmes, Internal Audit Consortium
Mr A Lawrie, Director, South Lanarkshire Community Health Partnership
Mrs C McGhee, Risk Manager
Mr C Sloey, Director, North Lanarkshire Community Health Partnership
Mrs L Paterson, Engagement Director, Pricewaterhouse Coopers
Mr P Woods, Bentley Jennison

APOLOGIES **Mr T Davison, Chief Executive**
Mr I A Ross, Director, Acute Services

1. **WELCOME**

Mr Sutherland welcomed members and attendees to the meeting. He extended a particular welcome to Mrs McGhee and to Mr Woods, who was attending his first meeting since the appointment of Bentley Jennison as the managing organisation for the Internal Audit Service.

2. **MINUTES**

The minute of the meeting held on 12 September 2006 (circulated), was submitted for approval and signature.

THE COMMITTEE:

1. Approved the minute, subject to noting that, whilst not recorded in the Sederunt, Mr C Brown, Audit Manager with Scott Moncrieff, was present at the meeting.

3. **MATTERS ARISING**

i) **Audit Scotland Review of Green Book Compliance**

The Director of Finance reported on the progress of work undertaken on behalf of the Board by Scott Moncrieff. She advised that Pricewaterhouse Coopers had commenced their investigation on behalf of Audit Scotland, but that the Terms of Reference for the investigation and the timescale for its completion had not yet been shared with the Board.

THE COMMITTEE:

i) Noted the update report on the Audit Scotland Review of Green Book Compliance.

ii) **Risk Management Strategy**

The Chairman reminded members that the Risk Management Strategy had been approved by the NHS Board at its meeting on 22 November 2006, when it had been agreed that Minutes of Meetings of the Risk Management Steering Group would continue to routinely be submitted to the Audit Committee for information.

THE COMMITTEE:

i) Noted the update report on the Risk Management Strategy.

4. **GOVERNANCE ISSUES**

i) **Law Sale Update**

The Director of Finance updated members on Developer issues. She advised that the issue of Title Transfer was being pursued with the Board's Property Adviser. She confirmed that due to changes in Treasury accounting treatment, the profit on sale would, from 1 April 2007, accrue to Capital rather than Revenue. There was, therefore, a material benefit to be had from achieving Virtual Certainty around the sale within the current financial year, bringing the benefits of addressing the balance of the Accumulated Deficit, and a one off revenue benefit to the system.

The Chairman stressed the need for the relevant issues to be pursued with the Scottish Executive Health Department within the context of the Corporate Financial Recovery Plan previously agreed with the Department. The Director of Finance confirmed that she was due to meet with the Director of Finance at the Department in January 2007 when this issue would be discussed.

Mrs Paterson confirmed that Pricewaterhouse Coopers would liaise closely with the Board, especially in relation to the technical accounting issues and the timing of the sale.

THE COMMITTEE

- i) Noted the update on the Law sale.
- ii) Asked to receive a further report.

Director
of Finance

ii) **Shared Services Project Update**

The Committee considered a paper on the National Shared Support Services (NSS) Project Update (circulated).

The Director of Finance explained that since the last Audit Committee meeting, significant progress had been made on the development of the National Shared Services Business Case. She outlined the current position, including in relation to the development of the draft Final Business Case by the SSS Project Board, in consultation with NHS Boards, which set out a plan for full implementation of Shared Support Services by 2009. She outlined the incremental approach to further progress, the key features for individual Boards and the stated expected benefits for Boards following full migration.

The Director of Finance explained that NHS Lanarkshire, and each NHS Board, had been asked to give formal endorsement to the draft Final Business Case, based on: the benefits identified for NHS Lanarkshire and for NHS Scotland overall; the overall economic and financial case; the high level migration strategy adopting an incremental approach to implementation; and NHS Lanarkshire identifying the necessary resources locally for the Project Team to work with throughout the period following FBC approval, to turn the challenging plan into a reality.

The Director of Finance emphasised the extent to which all discussion and activities relating to the SSS Project had been conducted within NHS Lanarkshire in partnership with the local Project Board and Senior HR Personnel. Staff affected by the SSS Project had been made aware of the current position relating to the draft FBC, and would be involved and supported throughout the consultation process.

Mr Sweeney sought further clarification on risks to NHS Lanarkshire, in relation to the Hub locations in particular, and the third wave of implementation, around the potential implications for continuity in service delivery.

The Chairman enquired about the extent to which NHS could genuinely influence the processes and sought clarification on the risks that NHS Lanarkshire required to manage to deliver the claimed benefits from implementation.

The Director of Finance highlighted Scottish Executive Health Department concern about the direction for Shared Support Services. She confirmed that the project was supported, in principle, by Directors of Finance within the NHS in Scotland, but that Directors of Finance also had some fundamental concerns about the project, particularly in relation to its demonstrated ability to deliver the claimed benefits for local systems and the wider NHS in Scotland. She suggested that in moving the project forward, it may be beneficial to NHS Lanarkshire to draw on the experience in England, via Bentley Jennison, the newly appointed managers for the Internal Audit Service.

The Chairman highlighted the need for clear procedures and protocols to underpin the migration. He also stressed the need for quantification of the risks in relation to the claimed benefits of the project. He suggested that the concerns highlighted in discussion should be confirmed formally to NHS National Services Scotland. Mr Sweeney explained that the issue was shortly to be discussed within the Area Partnership Forum, and he undertook to ensure that any relevant issues arising from discussion there were identified for inclusion in the submission to NHS National Services Scotland.

The NHS Board Chairman undertook to raise the issue at the meeting of NHS Board Chairs on 18 December 2006.

THE COMMITTEE

- i) Noted the update on the National Shared Support Services Project.
 - ii) Asked that the concerns raised in discussion about the Project's ability to deliver the claimed benefits be conveyed to NHS National Services Scotland. Director of Finance
 - iii) Asked to receive a further report. Director of Finance
- iii) **Payment Verification Report**

The Committee considered an update report on Payment Verification (circulated).

The Director of Finance highlighted the principal issues in relation to the receipt and review of Ophthalmic, Dental, Pharmacy and Medical reports, none of which raised issues of material significance. She also highlighted the position with regard to Payment Verification, including Practice visits and their outcome.

THE COMMITTEE

- i) Noted the update report on Payment Verification.
 - ii) Asked to receive a further report. Director of Finance
- iv) **Selection Panel – GP Contracts**

The Committee considered a paper setting out proposals for the composition of a Selection Panel to award a Primary Medical Services Contract in Harthill (circulated).

The Director of the South Lanarkshire Community Health Partnership outlined the background to the proposal, including the regulatory framework for Primary Medical Services Contractors. He explained the proposal that the composition of a Selection Panel to award the Primary Medical Services Contract comprise:-

- Non Executive Director NHS Lanarkshire (acting as Chair)
- Medical Director/nominated Deputy
- Area Medical Committee (GP Sub Committee) representative
- Locality General Manager
- Equal number of public/patient representatives

He advised that all members of the Selection Panel would have equal voting rights and, in the case of an equality of votes, the person Chairing the meeting would, in addition to his/her deliberative vote, have a casting vote.

In discussion, the need was highlighted to ensure that the level of public/patient representation sat properly within the context of the Board's overall approach to public and patient involvement. It would be important, also, to ensure that the selection of the public/patient representatives was genuinely representative of and had the support of the wider community served. The role of the public/patient representatives on the Panel would also require to be clearly defined, and members would require guidance and training in diversity issues.

The Director of the South Lanarkshire Community Health Partnership explained that selection criteria for the appointment had been identified and would also be weighted. He explained that the process for selecting the public/patient representatives, and advised that their details would be confirmed to patients.

THE COMMITTEE

- i) Approved the proposals for the composition of a Selection Panel to award a Primary Medical Services Contract in Harthill, subject to the issues highlighted in discussion being addressed in the appointment of the Selection Panel. Director South Lanarkshire CHP

5. **EXTERNAL AUDIT**

i) **Update from External Audit**

Mrs Paterson reported that Pricewaterhouse Coopers had completed detailed visits to NHS Lanarkshire, including meetings with senior personnel, as part of the process of familiarisation with systems and procedures. Further meetings would be held early in the New Year. She explained that work was in hand to follow up recommendations raised by previous External Auditors, and this would be the subject of a report to the next meeting of the Audit Committee. She confirmed also that Pricewaterhouse Coopers had updated its Audit Approach document, previously shared with the Committee.

Mrs Paterson advised that the Law Sale was an area for a significant focus by PwC over the coming months. She reported on handover arrangements from Scott Moncrieff, and confirmed the intention to meet with the Director of Finance and Finance staff in order to agree mutual expectations.

THE COMMITTEE

- i) Noted the update from External Audit.
 - ii) Asked to receive a further report. PwC
- ii) **Audit Scotland Reports for Information: Revised Code of Audit Practice - Consultation**

The Committee considered a report from Audit Scotland on Revised Code of Audit Practice – Consultation (circulated).

Mrs Paterson highlighted the principal issues arising from the Revised Code. She explained that the Audit process would not alter materially as a consequence of the Revised Code, which was less prescriptive, leaving a greater level of responsibility to the judgement of Auditors around interpretation. She confirmed the extent to which Pricewaterhouse Coopers and other External Auditors worked in partnership with Audit Scotland. She also highlighted the need to link Corporate Governance responsibilities with financial statements responsibilities.

The Director of Finance enquired about the extent to which the best value issue within the revised Code of Audit Practice reflected the approach in Local Government.

Mrs Paterson explained that the approach in Local Government was fundamentally different, as best value was a statutory duty in that setting, and could potentially become so within the NHS.

The Chairman highlighted the need for the Committee to give clear advice to the Chief Executive to inform a response to the Consultation.

The Director of Finance advised that there were, essentially, no areas of material concern within the Revised Code, which set out a direction of travel the Committee and the Board had already acknowledged.

THE COMMITTEE

i) Noted the Audit Scotland Revised Code of Audit Practice – Consultation.

ii) Agreed that a consultation response in the terms discussed should be submitted. Director of Finance

iii) Audit Scotland – Catering for Patients: A Follow-up Report

The Committee considered a follow-up report from Audit Scotland on Catering for Patients (circulated).

The Director of Finance explained that the report commented on progress against the recommendations in the Audit Scotland 2003 Baseline Study. In particular, it examined whether Hospitals were meeting patients' nutritional needs and preferences, as well as reviewing what improvements had been made in the financial and strategic management of Catering Services. She highlighted the key messages from the follow-up report.

The Board Secretary explained that, currently, an NHS Lanarkshire Food and Health Policy for staff and visitors was the subject of consultation. He highlighted, also, work in progress to develop a Food, Fluid and Nutritional Care in Hospital, Policy and Strategic Plan, which was aimed at patients, and would require to take account of the key messages identified in the Audit Scotland follow-up report.

The Chairman highlighted key issues in relation to the quality of food, benchmarking against other systems and the extent of the subsidy of staff meals.

The Director of the North Lanarkshire Community Health Partnership advised that the General Manager for Property and Support Services had been remitted to re-establish a group to consider the relevant issues in relation to catering for patients, visitors and staff. The outcome of this work would be reported to the Health and Clinical Governance Committee which would, in turn, report to the Audit Committee.

Mr Currie, Chairman of the Acute Operating Management Committee, undertook to raise this issue at the meeting of the Operating Management Committee on 14 December 2006.

THE COMMITTEE

- i) Noted the Audit Scotland follow-up report on Catering for Patients.
- ii) Noted the proposed action to consider the key messages arising from the report.
- iii) Asked to receive a further report.

Director of Finance

iv) **Developing Best Value Arrangements**

The Committee considered a report from Scott Moncrieff on Developing Best Value Arrangements – a Baseline Review Across the NHS in Scotland (circulated).

The Director of Finance highlighted the principal issues arising from the report, which included a joint assessment of the stage of development NHS Lanarkshire was at against at each of the Best Value characteristics. She highlighted the summary position agreed with Scott Moncrieff, as follows:

Characteristic	Assessment
Securing Best Value	Under development
Commitment and Leadership	Under development
Sound Governance at a strategic and operational level	Under development
Accountability	Planned
Sound management of resources	Under development
Responsiveness and consultation	Under development
Use of Review and Option Appraisal	Under development
Contribution to sustainable development	Under development
Equal Opportunities Arrangements	Under development
Joint Working	Under development

Mrs Paterson advised that Pricewaterhouse Coopers awaited guidance on its role in relation to the Review Report which, presumably, would be to follow-up the principal findings.

In discussion, members highlighted the need to link the Review findings to the means by which the Board demonstrated effective leadership and sustainable development. There was recognition, however, that there was a substantial degree of subjectivity in the review, and it was suggested that this issue might be raised with Audit Scotland, with a view to the Review becoming increasingly objective. Mrs Paterson advised that at the time of the Review the definition of “Best Value”, within the NHS in Scotland was less clear than it was now.

The Director of Finance confirmed that the Review Report had been considered by the Corporate Management Team and would be considered by the Performance Management Group, in order that the findings might be embedded within the Performance Management arrangements.

THE COMMITTEE

- i) Noted the Report on developing Best Value Arrangements – a Baseline Review across the NHS in Scotland.
- ii) Asked that the review findings be utilised to identify areas for further action and development.

Director
of Finance

6.

INTERNAL AUDIT

i) Activity Report to 30 November 2006

The Committee considered a report on Internal Audit Activity to 30 November 2006 (circulated).

Mrs Holmes highlighted the principal elements of the report, including in relation to: Internal Audit Activity since the previous Audit Committee; progress to date against the Audit Plan for 2006/2007; and the Summary of Reports and follow-up reports issued from previous Audit Committee. She advised that follow-up reports would be the subject of reporting to the Audit Committee at its next meeting in March 2007. She acknowledged a suggestion that the section of the report relating to Draft Reports, should include the identification of the individuals to whom reports were issued.

Internal
Audit

Mr Woods advised that he would discuss with Mrs Holmes and Mrs Goldsmith some issues in relation to the layout and the presentation of reports on Internal Audit Activity. He explained that, currently, he was not entirely clear about where the level of reporting sat in terms of overall assurance, and intended to clarify this issue during the early stages of the Bentley Jennison commission. This would include developing further clarity about budget days, planned days and deliverables. He enquired about the extent to which the Committee was content with the detail of the Internal Audit Reviews.

Members highlighted the need for the Committee, increasingly, to have as much clarity as possible on the issues and areas on which it should focus in order that the Committee might genuinely have confidence about assurance, and its ability to provide assurance to the NHS Board.

Mr Woods acknowledged the views expressed, including in relation to the need for the Committee to have confidence about the level of Internal Audit activity, and confirmed that these would be addressed by Bentley Jennison. He also confirmed that the approach by Bentley Jennison could encompass gap analysis in relation to the Board's strategic direction and risks, in a way which transparently followed the Board's risk process. There would, however, remain an element of regularity work as a key part of Internal Audit activity.

Mrs Holmes acknowledged issues raised about the processes through which the Internal Audit Plan was set, including the Terms of Reference for Audits, and confirmed that these would be addressed within the Audit Plan.

THE COMMITTEE

- i) Noted the report on Internal Audit activity to November 2006.
- ii) Asked to receive a further report.

Internal
Audit

ii) **Summary Report on Fraud**

The Committee considered a briefing paper on the work of the Counter Fraud Service in relation to NHS Lanarkshire (circulated).

Mrs Holmes explained that as part of the Partnership Agreement with the Counter Fraud Service a Quarterly Report on anonymised Fraud cases for the NHS in Scotland was produced. She highlighted the synopses of those cases as they related to NHS Lanarkshire for the Quarter to September 2006 and an update on their progress.

THE COMMITTEE

- i) Noted the briefing paper on the work of the Counter Fraud Service in relation to NHS Lanarkshire.

iii) **Internal Audit Tender**

The Committee considered a paper on the Evolution of the Internal Audit Tender (circulated).

The Director of Finance highlighted the principal issues in relation to the Evolution of the Internal Audit Tender which had resulted in Bentley Jennison being formally awarded a 16 month contract on 4 December 2006 with notification that an extension would be discussed during the currency of the agreement. She highlighted the extent to which this had been the unanimous verdict of the Evaluation Committee, on the basis of: significant client-based benchmark; significant experience of managing Partnership arrangements; strong emphasis on Governance and Risk as Audit drivers; extremely clear statements of standards and quality and lowest cost.

THE COMMITTEE

- i) Noted the Report on Evolution of the Internal Audit Tender, resulting in the unanimous award of the contract to Bentley Jennison.

7. **DATES OF FUTURE MEETINGS**

14 March 2007 at 9.00am.
27 June 2007 at 9.00 am (Annual Accounts).
11 September 2007 at 9.00 am.
11 December 2007 at 9.00 am.

NJA/OD
21 February 2007