

Minute of Meeting of the Audit Committee
held on 25th May 2007 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
Mr H Sweeney, Employee Director

IN

ATTENDANCE: Mrs S Goldsmith, Director of Finance
Mr M White, Engagement Manager, Pricewaterhouse Coopers
Mr P Woods, Bentley Jennison
Mrs M Holmes, Internal Audit Consortium
Mr N J Agnew, Corporate Affairs Manager/Board Secretary

APOLOGIES: Mr P K Corsar, Chairman, Lanarkshire NHS Board
Mr T Davison, Chief Executive
Mrs C McGhee, Risk Manager

1. **MINUTES**

The minute of the meeting held on 14th March 2007 (circulated), was submitted for approval and signature.

THE COMMITTEE:

1. Approved the minute for signature.

2. **MATTERS ARISING**

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

The Committee considered a copy of correspondence of 30th March 2007 from the Director of Public Reporting at Audit Scotland to Elaine Smith, MSP on NHS Lanarkshire 'A Picture of Health'.

The Director of Finance explained that the Audit Scotland conclusion, based on an investigation by Pricewaterhouse Coopers, was that there was no basis on which to conclude that NHS Lanarkshire had failed to follow extant guidance in relation to: the use of thro' life costings (also known as whole life costings); use of a stated preferred option throughout the exercise; and compliance with the Treasury Green Book. However, in the Auditors' view, there were some areas where lessons could be learned for the future, although these did not have any material bearing on the outcome of the A Picture of Health process. Mr. White confirmed that that position concurred with the Pricewaterhouse Coopers view. He advised, also, that the further

work that Pricewaterhouse Coopers were carrying out in this area as part of the audit of the Board's 2006/2007 Annual Accounts, would be unlikely to impact on the interim findings reflected in the correspondence from Audit Scotland.

THE COMMITTEE:

1. Noted the interim findings of the Audit Scotland/Pricewaterhouse Coopers audit of the NHS Lanarkshire A Picture of Health process.
2. Noted that the current thorough examination of this area, as part of the Pricewaterhouse Coopers audit of the Board's 2006/07 Annual Accounts, would be concluded in June 2007.
3. Asked to receive a further report.

Director
of
Finance

ii) **Revised Scheme of Delegation/Standing Financial Instructions**

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

Mr. White explained that the version of the Scheme of Delegation and Standing Financial Instructions represented a minor update to the version previously considered by the Committee. He highlighted the section of the Standing Financial Instructions relating to the opening of Tenders, with particular regard to the need for clarity about where completed tenders were retained for storage. He highlighted, also, the need for clarity about the respective roles of the Fraud Liaison Officer and the Chief Executive, in relation to informing the police in cases of suspected fraud. The Director of Finance undertook to clarify these issues. She also explained that there would not be a requirement for the Community Health Partnerships to have separate SFI's as they were, in effect, Operating Divisions of the NHS Board. Mr. Woods advised that, from an Internal Audit perspective, there were no obvious deficiencies in the Scheme of Delegation or the Standing Financial Instructions. He confirmed that the Internal Audit interest was in how these documents operated in practice, and that the levels within the Scheme of Delegation were appropriate.

Director
of
Finance

THE COMMITTEE:

1. Approved the revised Scheme of Delegation and Standing Financial Instructions, subject to clarification of the issues highlighted in discussion.
2. Agreed to recommend the revised Scheme of Delegation and the Standing Financial Instructions to the NHS Board for adoption.

Director
of
Finance
Director
of
Finance

3. **GOVERNANCE ISSUES**

i) **Law Sale Update**

The Committee considered a paper which provided a further update on the sale of Law, including the accounting treatment and the anticipated conclusion of the sale.

The Director of Finance reminded members of the background to the sale. She also reported on progress regarding Statutory Consents and progress with Title Transfer which, it was anticipated, would take place around September 2007.

THE COMMITTEE:

1. Noted the current state of the sale and the accounting treatment for 2006/07.

2. Asked to receive a further report.

Director
of
Finance

ii) Payment Verification Report

The Committee considered a Payment Verification update from NSS on information from NSS Practitioner Services.

The Director of Finance outlined the position in relation to the receipt of Ophthalmic, Dental, Pharmacy and Medical Reports, none of which raised significant issues. She also outlined the position with regard to Payment Verification and Pre-Payment Verification for the Quality Outcomes Framework 2006/07, which had successfully been completed within the allotted timescale.

Members expressed a particular interest in better understanding elements of the payment verification and pre-payment verification processes. It was therefore agreed to include a particular focus on these issues at the meeting of the Audit Committee on 11th September 2007, with Fiona Porter and Shiona Mackie being invited to attend to speak to these items.

Director
of
Finance

THE COMMITTEE

1. Noted the Payment Verification update on information from NSS Practitioner Services.
2. Asked to receive a further report.
3. Agreed to give further consideration Payment Verification and Pre-Payment Verification processes for the Quality Outcomes Framework at its meeting on 11th September 2007.

Director
of
Finance

iii) Shared Services Update

The Committee considered a paper setting out a National Shared Support Services (NSSS) Project update.

The Director of Finance explained that, since the last Audit Committee meeting, and consultation with all NHS Scotland Health Boards on the draft Final Business Case, it was decided the FBC would not be submitted at that stage. Consequently, the Project Team was asked to come up with proposals that would build on the clear support for the principle of Financial Shared Services, whilst addressing the areas of concern. She outlined the current position, including the immediate task over the next three months of developing a revised Plan for Shared Services in conjunction with Health Boards, which would culminate in the revision of the Business Case for the final configuration of NSSS in NHS Scotland. She stressed that the revised plan would be supported by a full review of the Project Resources and Governance structures, with the latter including more direct and ongoing engagement with Chief Executives and non Executive Directors. She advised that to prove the benefits and address the range of risks in the NSSS concepts, identified by Health Boards in their FBC responses, a portfolio of 'pathfinder' projects would be established to test, prove and implement the new ways of working. These pathfinder projects would be carried out by volunteer Health Boards on behalf of all Health Boards, and would be evaluated independently. It was envisaged that, once proven, the results of the pathfinder projects would be made available to all Health Boards for roll-out locally, or as part of the move to a new NSSS operation, whichever was most appropriate.

The Director of Finance explained that over the coming weeks, the Project Team would be working closely with Health Boards to gain expressions of interest in participating with Pathfinder Projects by 31st May 2007. In this regard, NHS Lanarkshire had been approached by NHS Ayrshire and Arran to consider a potential pathfinder model proposal, within a new Consortium of Health Boards, to demonstrate a shared delivery of financial services across a cluster of Health Boards. There was general support for the principle of Consortium working within the local NSSS Project Board following a meeting with NHS Ayrshire and Arran, and there would now be a meeting between the Local Project Board and NHS Tayside, which hosted an existing Consortium, to discuss any Pathfinder Project possibilities within that Consortium, enabling a comparison between the two Consortia and assisting in making an informed proposal.

In discussion, the Director of Finance confirmed that, ultimately, it would be a matter for the Local Project Board to decide on consortia working with NHS Ayrshire and Arran. She undertook to bring back to the Committee regular progress reports on discussions, including an indication of timescales.

Director
of
Finance

The Chairman suggested that in any discussions about the progress of this matter, it would be appropriate to be mindful of the potential benefits of 'invest to save', and avoiding any potential weakening of local financial control as a consequence of large-scale functions.

THE COMMITTEE

1. Noted the National Shared Support Services Project update.
2. Asked to receive a further report.

Director
of
Finance

4.

INTERNAL AUDIT

- i) Internal Audit Activity Report to 31st March 2007

The Committee considered a report on Internal Audit Activity to 31st March 2007 .

The Chairman advised that he had met with the Director of Finance and Mr. Woods to review the approach to reporting in light of previous discussion on this matter. Arising from discussion, there was recognition that reporting should be easily accessible, providing the correct level of information and understanding of Internal Audit Projects and pressures, such that the Committee could be clear about whether, as a result of Internal Audit processes, it was receiving the necessary assurances. He suggested to members that the papers before the Committee signalled progress in this direction.

Mrs. Holmes confirmed that the full Internal Audit Plan for 2006/07 had been achieved. She highlighted one issue in relation to the Best Value Review of the Admin Burden at Ward Level, where the audit and report had been completed, but where, as a result of discussion with the Director for Allied Health Professions, Nursing and Midwifery, additional work was being scoped and would be undertaken 2007/08. Mrs. Holmes confirmed that the overall opinion was adequate, with no material issues arising during the year that would require to be addressed within the Statement of Internal Control.

During discussion on the summary of reports and follow up reports issued since the previous Audit Committee, members highlighted an apparent inconsistency between the Opening Statements and the Overall Conclusion about the adequacy of assurance. Mrs. Holmes explained that the overall conclusion about the adequacy of assurance

Bentley
Jennison

took account of management responses and commitments in relation to audit conclusions and recommendations.

In relation to Professional Advice and Services, Mrs. Holmes confirmed that the conclusions were based on responses from the Director of SALUS, rather than full access to and testing of control structure and procedures, but confirmed that future audits would be conducted at this level.

In relation to the audit of Budgetary Control, the Director of Finance confirmed that further work was required to move to a full single system approach. Whilst the Acute, Primary Care and Corporate Management Accountancy Teams had been co-located, there remained issues to be addressed to move forward to full single system operation. This work was being taken forward through a group of Senior Management Accountants chaired by the Head of Finance for the Community Health Partnerships, working to an agreed timetable. The Director of Finance highlighted the need to achieve the necessary balance between efficiency and best practice and management requirements.

Mr. Woods stressed the need for Internal Audit to consider the risk issues in relation to budgetary control, and whether there was a requirement to undertake more regulatory work. He acknowledged the need to adopt an organisational development approach to the further work to move towards full single system operation, and confirmed that Bentley Jennison could facilitate workshops at a user level.

In relation to the audit of Medicines Management, members acknowledged the explanation from Mrs. Holmes about management assurances and the involvement of the Chief Pharmacist in addressing the issues highlighted, as well as the assurances provided to the Local Clinical Governance Committee, but nevertheless expressed a concern about the audit finding that a number of significant issues required to be addressed in order that the system could be considered fully adequate. Given the requirement for there to be a sufficient level of confidence about direct and prompt action, in order to sign off the Statement of Internal Control, the audit findings would be raised with the Medical Director, with a view to their consideration by the Board's Health and Clinical Governance Committee, with an opportunity for assurances to be provided to the Committee by the Chief Pharmacist.

Director
of
Finance

In relation to the audit of Community Health Partnerships, Mr. Anning reported that, as Chair of the North Lanarkshire CHP, he was due to meet shortly with the Chair of the South Lanarkshire CHP and the respective CHP Directors, to consider further intensive testing against the self-assessment tool for CHPs.

Mrs. Holmes referred to the audit opinion that there were areas where improvements could be made in systems, and confirmed that recommendations in this regard would be included within the next report.

Internal
Audit

In relation to the audit of Application Review Theatre System and Theatre Utilisation, it was noted that there was ambivalence between the opening statement and the overall conclusion. Mr. Woods acknowledged the need for further clarity about the use of audit definitions. Mrs. Holmes explained that the main audit concern had related to the availability of management reports, but confirmed that this had now, largely, been resolved, with reports being run from the end of May.

In relation to the audit of Sickness and Staff Absence, it was noted that there was a HEAT target for Sickness Absence within the Local Delivery Plan. Mr. Sweeney confirmed that this was being addressed through the Staff Governance Committee.

THE COMMITTEE:

1. Noted the Report on Internal Audit activity to 31st March 2007.
2. Asked to receive a further report, which addressed the issues highlighted in

Internal

discussion.

Audit

ii) Draft Internal Audit Report – May 2007

The Committee considered a Draft Internal Audit Report for May 2007.

Mr. Woods highlighted the principal elements of the report and the format in which it was presented.

Members confirmed contentment with the suggested report format, subject to further clarification of the terminology used within the Definitions section at the end of the report.

THE COMMITTEE:

1. Noted the Draft Internal Audit Report May 2007 and confirmed agreement with the reporting format.
2. Asked to receive a further report.

Bentley
Jennison

iii) Technical Release

The Committee considered a Technical Release from Bentley Jennison on follow-up audits.

Mr. Woods highlighted the principal elements of the Technical Release, in relation to: Internal Client Processes; Audit Process; Categorisation of Recommendations to be followed up and tested; planning of follow-ups; limited assurance; use of the working papers; testing; reporting; and undertaking follow-ups at a new client. He confirmed that this approach was used extensively across NHS Trusts and by the firm generally.

Members confirmed that the approach set out in the Technical Release provided a welcome enhanced focus on follow-up audits.

THE COMMITTEE:

1. Noted the Technical Release from Bentley Jennison on follow up audits, and confirmed agreement with the processes therein.

5. **EXTERNAL AUDIT**

i) 2006/07 Audit – Interim Report

The Committee considered an Internal Controls and Governance Report 2006/07 Audit (circulated).

Mr. White highlighted for members the principal elements of the report, from the Executive Summary and the sections on Financial Statements; Governance; and Performance. He also highlighted the Action Plan, which included the management response and agreed action in response to audit recommendations along with responsibility and implementation dates. He explained that the report was designed to highlight risks rather than fundamental weaknesses in the system.

The Director of Finance referred to the section of the report relating to Corporate Division savings targets, and whilst accepting the audit view about the need for the identification of an individual within the Corporate function who would be charged

with monitoring progress on the achievement of all 2007/08 savings, emphasised that overall financial management and control, including in relation to corporate savings, was fundamentally sound, with no material compromise to financial control. She confirmed that an individual within the corporate function would be identified to carry this responsibility. She undertook to revert to the next meeting of the Audit Committee, following discussions with the Director of Human Resources and the Employee Director, about the approach that might be taken to establishing a systematic prioritised approach to investigations and putting in place a mechanism for monitoring and reporting progress with the National Fraud Initiative.

Director
of
Finance

Mr. White confirmed that Pricewaterhouse Coopers would have further discussions with the Director of Finance about sustaining the financial performance achieved in 2006/07. He confirmed, also, that the final Audit report would recognise the booking of the Law sale and the anticipated achievement of Title Transfer in September 2007.

THE COMMITTEE:

1. Noted the Internal Controls and Governance Report 2006/07 audit.
2. Asked to receive a further report.

PwC

ii) New Code of Audit Practice

The Committee considered the Audit Scotland Code of Audit Practice prepared for the Auditor General and the Accounts Commission in March 2007 (circulated).

Mr. White explained that the Code was provided for members information. He highlighted the development of auditing standards and the audit approach, and the inclusion of robust statement about auditors working closely with other auditors and bodies such as NHS Quality Improvement Scotland, including in relation to the sharing of information. He reported on the impending publication of international statements on auditing and accounting, which would apply in the private sector, but not, initially, in the public sector.

Mr. White acknowledged an issue raised by the Director of Finance in relation to the two PFI Projects being brought on to the Balance Sheet from 2008/09, and advised that when the principal changes to the audit approach were known, they would be brought to the Committee for consideration. He also confirmed that Pricewaterhouse Coopers was in receipt of a comprehensive set of accounts which currently were under consideration.

THE COMMITTEE:

1. Noted the Audit Scotland Code of Audit Practice.

6. **RISK MANAGEMENT**

The Committee received and noted minutes of meetings of the Risk Management Steering Group held on 5th March 2007, 2nd April 2007 and 7th May 2007.

7. **DATES OF FUTURE MEETINGS**

27th June 2007 at 9.00am in the Board Room (Annual Accounts)
11th September 2007 at 9.00am in the Board Room
11th December 2007 at 3.00pm in the Board Room

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