

Lanarkshire NHS Board

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Minute of Meeting of the Audit Committee
held on 14th March 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

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
Mrs C McGhee, Risk Manager
Mr M White, Engagement Manager, Pricewaterhouse Coopers
Mr P Woods, Bentley Jennison

APOLOGIES: Mr H Sweeney, Employee Director
Mr T Davison, Chief Executive
Mr A Lawrie, Director, South Lanarkshire Community Health
Partnership
Mrs L Paterson, Engagement Director, Pricewaterhouse Coopers
Mr I A Ross, Director, Acute Services
Mr C Sloey, Director, North Lanarkshire Community Health
Partnership

1. **MINUTES**

The minute of the meeting held on 12th December 2006 (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 Director of Finance confirmed that the situation remained as reported to the NHS Board on 28th February 2007, viz: a draft report of the audit undertaken by Pricewaterhouse Coopers had been received and a response to Audit Scotland was being prepared.

THE COMMITTEE:

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

ii) **Risk Management**

The Chairman reminded members of the undertaking at the previous Committee that the Audit Committee would routinely receive minutes of meetings of the Risk Management Steering Group.

THE COMMITTEE:

1. Asked to receive copies of minutes of the Risk Management Steering Group for January and February 2007 and for minutes to be routinely included as agenda items for future meetings of the Committee.

Board
Secretary
Director
of
Finance

iii) **Shared Services Project Update**

The Director of Finance confirmed that National Services Scotland and the Scottish Executive Finance Department were currently in discussion about a way forward, which would preserve the beneficial elements of the Business Case, but would recognise the concerns expressed by the Service.

The Chairman confirmed that this issue had been raised at a recent meeting of NHS Board Chairs, where it was evident that territorial Health Boards held similar concerns about the Business Case.

THE COMMITTEE:

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

Director
of
Finance

iv) **Audit Scotland – Catering for Patients: A Follow Up Report**

Mr. Currie confirmed that the Audit Scotland Report had been raised at a recent meeting of the Acute Operating Management Committee when members had been reassured that issues raised within the Report were actively being considered. The output from that process would be reported to the Acute Operating Management Committee. It would also be reported to the Health and Clinical Governance Committee, and through that route would be reported back to the Audit Committee.

In response to a question from the Chairman, the Director of Finance confirmed that there would be merit in undertaking a Best Value Audit on Catering, with particular regard to costs and pricing. She had discussed this issue with Mr. Woods, in the context of increasing the level of Best Value Reviews within the Internal Audit Programme.

THE COMMITTEE:

1. Noted the update report on Audit Scotland – Catering for Patients: A Follow Up report.
2. Asked to receive further information about the proposed Best Value Review Programme.

Director
of
Finance

3.

GOVERNANCE ISSUES

i) **Law Sale Update**

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

The Director of Finance reminded members of the background to the issue, and the substantial volume of work undertaken over many months to conclude the sale within the current financial year. She reported on positive progress regarding Statutory Consents and material progress with Title Transfer. She advised that although Title Transfer was unlikely to be achieved within the current financial year, a stage had been reached where the sale could be 'booked' within the Accounts of NHS Lanarkshire in the current financial year, on the basis that 'virtual certainty' had now been reached with the achievement of Detailed Planning Consent, and the removal of objections from SEPA and Scottish National Heritage. She stressed that this was strategically important to NHS Lanarkshire, as it would allow the net receipt to be recorded as revenue income, which would allow the Board to clear its brought forward deficit in totality. She advised that the net value of the receipt was anticipated to be approximately £17.7m. With a net book value of £5m, this would translate into a revenue receipt of £12.7m, subject to confirmation on various costs. She reported that the situation had been discussed with Pricewaterhouse Coopers, who had acknowledged the position reached. Pricewaterhouse Coopers advised that the booking of the sale would be formally considered as part of the external audit process. She also confirmed SEHD agreement to the booking of the sale in the current financial year. She acknowledged the substantial contribution which South Lanarkshire Council had made to the achievement of this position through expediting the Planning Consent.

The Director of Finance confirmed that her authority extended to booking the sale on the basis of the progress outlined in the report before the Committee, and the positive discussions that she had had with the developers, Gerald Eve, Pricewaterhouse Coopers and the Scottish Executive Health Department.

The Chairman welcomed the reported progress in this matter, given that the conclusion to the Law sale was a significant element of the Board's Financial Recovery Plan, enabling the disposal of the balance of the Accumulated Deficit.

THE COMMITTEE:

1. Noted the update on the Law sale.
2. Noted the current status of the sale, and the proposed accounting treatment for 2006/07.
3. Welcomed the satisfactory conclusion to this matter and expressed appreciation to the Director of Finance for the manner in which the issue had been progressed, including in relation to the management of risk.

ii) **Payment Verification Report**

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

The Director of Finance outlined the position with regard to ophthalmic, dental, pharmacy and medical reports, where the availability of reports had been more timely, with no significant issues raised in the reports.

The Director of Finance acknowledged that for some payment streams, the reports were historical. She advised that the imminent introduction of Electronic Transfer of Prescriptions should contribute materially to enhancing the timescales within which information from NSS Practitioner Services was available to local systems.

In the area of post payment verification, the Director of Finance reported that the Primary Care Division had identified two additional practices to be visited and she highlighted the issues which these visits raised in relation to the Quality Outcomes Framework process

In discussion, it was agreed that further consideration would be given to the post payment verification sample size, within the overall context of the Internal Audit plan, including an assessment of whether the risk profile had changed, sample size and the level of detail covered during visits.

THE COMMITTEE:

1. Noted the Payment Verification update.
2. Asked to receive a further report, including in relation to the review of post payment verification sample size.

Director
of
Finance
Bentley
Jennison

4.

INTERNAL AUDIT

i) Internal Audit Activity Report to 28th February 2007

The Committee considered a report on Internal Audit Activity to 28th February 2007 (circulated).

Mr. Woods spoke to the report, highlighting the revised format and the principal issues covered. He explained that the activity reports could be further refined to suit the system's requirements, focussing increasingly on assurance levels and their development over the course of the year, audit recommendations and recommendation tracking.

The need was highlighted for further clarity about the form and level of Internal Audit reporting to the Staff Governance Committee and the Health and Clinical Governance Committee. Mr. Woods would give further consideration to this issue, in the context of the separation of 'assurance' and 'internal audit advisory' work. This may involve the other Governance Committees receiving summaries of relevant reports, on the basis that the Committees may have access to the full reports if the summary highlighted material assurance issues on which they would wish further detail.

Bentley
Jennison

Other proposed enhancements to the reporting were highlighted, as follows:

- Increased emphasis on the extent to which audit reports highlighted the most material risks.
- The identification within the reports of the responsible Executive Director to whom the reports were sent, along with an indication of their responsibility for reporting to the appropriate Governance Committee, and the Audit Committee role in this process.
- An indication from Internal Audit of the extent to which, if management actions were implemented, they would consider the system to be adequate.
- A further explanation of the grading of audit findings.

The Director of Finance highlighted the need for further clarity about the distinction between 'control' issues and 'risk' issues, and advised that fundamental and significant risk issues reported by audit should be referred for consideration by the Risk Management Steering Group.

Mr. Woods undertook to consider the issues highlighted, and to produce a report to the Audit Committee on the proposed changes to progress reporting. This would include clarity about the materiality of issues and, in appropriate cases, benchmarking

Bentley

with other systems.

Jennison

ii) Draft Internal Audit Plan 2007/08

The Committee considered the Draft Internal Audit Plan 2007/08 (circulated).

Mr. Woods highlighted the principal aspects of the Audit Plan, across the audit area, the rationale, the scope of the Audit and the coverage (days). He confirmed the intention to develop a three or five year rolling programme of Audit, in order that the Committee might have an overview of the cycle of audit.

In discussion, he confirmed that the coverage included contingency days to undertake ad hoc audits that might be required. He explained that the draft Audit Plan had recently been considered by the Corporate Management Team, which had confirmed its contentment with the proposed approach, including the rationale. He acknowledged that the Audit Plan did not include a review of the adequacy of the system's arrangements for dealing with an influenza pandemic, as this had not been highlighted as a material issue at the time the Audit Plan was produced. Mrs. Holmes explained that Internal Audit had just completed and reported on a comprehensive review of Emergency Planning. In addition, the system was currently engaged in producing a Business Continuity Plan. Progress reporting on these key areas, which encompassed the planning for an influenza pandemic, was to the Risk Management Steering Group. It was recognised that the Health and Clinical Governance Committee would also have a legitimate interest in the planning for an influenza pandemic.

Mr. Woods explained that he considered the balance of coverage between Assurance and Advisory activity to be appropriate, and that the findings of Assurance Audit may identify the need for further audit work. He explained also that Advisory activity would encompass Best Value issues and an overall view about Best Value. He acknowledged the importance of confirming Best Value in relation to the A Picture of Health Programme/Project Management and advised that he would reflect this within the Plan in the Audit area covering Project Management.

Bentley
Jennison
Director
of
Finance

The Director of Finance welcomed the approach to reviewing Best Value issues, and acknowledged the need to develop a Best Value Strategy for NHS Lanarkshire.

THE COMMITTEE:

1. Approved the Draft Audit Plan for the period 2007/08.
2. Asked to receive further reports.

Bentley
Jennison

iii) Scheme of Delegation/Standing Financial Instructions

The Committee considered a report on the Scheme of Delegation and the Standing Financial Instructions (circulated).

The Director of Finance explained that the Scheme of Delegation and Standing Financial Instructions had last been reviewed and updated in 2004 to recognise the abolition of Trusts and the move of NHS Lanarkshire to a single corporate entity, with all legal and employment responsibilities transferring to NHS Lanarkshire. She advised that in order that the organisation operated effectively and within the legal limitations set down in legislation, there required to be a clear and approved framework of Governance, including a clear Scheme of Delegation and a robust set of Standing Financial Instructions. She outlined the approach to updating the Scheme of Delegation and the Standing Financial Instructions, and highlighted the principal areas in which changes had been made. She invited members to submit any comments to her, but highlighted the need for approval at the meeting on the financial values within the documents, which had been sense-checked against extant national guidance and the approach in other comparable health systems. Mrs. Holmes confirmed that the

financial values set out within the updated documents were within the scope of the Regulations set down by the Scottish Executive.

Mr. White undertook to review the updated documents and to include reference to them in the Pricewaterhouse Coopers Interim Management Report, in order that the Audit Committee might approve the documents at its next meeting.

Mr. Woods explained that Internal Audit would, within the next two to three months, review the implementation of the updated Scheme of Delegation and Standing Financial Instructions, in terms of how they were working in practice.

THE COMMITTEE:

1. Noted the updated Scheme of Delegation and Standing Financial Instructions.
2. Accepted the financial values set out within the updated documents.
3. Agreed to consider the documents further at the next meeting of the Committee, and subject to external audit confirmation at that meeting, to recommend acceptance of the updated documents to the NHS Board. Director of Finance
4. Agreed to an internal audit review of the updated Scheme of Delegation and the Standing Financial Instructions, in terms of 'fitness for purpose'. Bentley Jennison

5

EXTERNAL AUDIT

i) Audit Plan

The Committee considered an updated Audit Approach for 2006/07 (circulated).

Mr. White spoke to the updated document. He advised that there was no material change within the document to the Approach considered by the Committee in draft at its meeting in August 2006. He advised also that whilst the general audit approach remained the same, Section 5 updated and expanded the Key Challenges and Opportunities Facing NHS Lanarkshire: Section 6 outlined the Auditor's obligations regarding Fraud and Irregularity and Section 8 included the, now agreed, Audit Fees. In relation to the key challenges and opportunities facing NHS Lanarkshire Mr. White highlighted the principal issues, viz: implementation of A Picture of Health; Financial Performance; Sale of Law Hospital; Pay Modernisation; Community Health Partnerships; Waiting List Targets; Delayed Discharge; Cross Boundary Flow and National Tariffs; and Information Management. He also highlighted the principal elements of the Approach in the area of Fraud and Irregularity, including the prevention and detection of fraud and irregularity and the National Fraud Initiative.

In discussion, Mr. White acknowledged that the element of the Approach dealing with Financial Performance may not fully reflect the magnitude of the achievement in moving the system to recurring revenue balance and addressing the Accumulated Deficit through the Law Hospital sale, as discussed earlier in the meeting.

The Director of Finance undertook to circulate the updated Audit Approach to Corporate Management Team colleagues, and to arrange for the Audit Approach to be considered by the Corporate Management Team at its next formal meeting. Director of Finance Board Secretary

THE COMMITTEE:

1. Approved the updated Audit Approach for 2006/07.
2. Asked to receive further reports. PwC

ii) 2006/07 Audit – Follow-up 05/06 Audit Recommendations

Mr. White explained that the 2006/07 audit included follow-up on 2005/06 audit recommendations from the Board's previous Appointed Auditor. He confirmed, on

the basis of work undertaken, that Pricewaterhouse Coopers was satisfied with progress on implementation, recognising that this was an ongoing process.

THE COMMITTEE:

1. Noted the report on the 2006/07 Audit – Follow-Up 2005/06 Audit Recommendations.
2. Asked to receive a further report.

PwC

6.

DATES OF FUTURE MEETINGS

27th June 2007 at 9.00am, Board Room (Annual Accounts)

11th September 2007 at 9.00am, Board Room

11th December 2007 at 3.00pm, Board Room.

A further meeting of the Committee would be convened in May 2007 to consider ongoing Audit Committee business.

NJA/MB

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