

**Minute of Meeting of the Audit Committee  
held on Wednesday 12 March 2008 at 9.00 am in the  
Board Room, NHS Board Offices, 14 Beckford Street,  
Hamilton**

**CHAIRMAN:** Mr W Sutherland, Non Executive Director

**PRESENT:** Mr T Currie, Non Executive Director  
Mrs S Smith, Non Executive Director  
Mr J A Anning, Non Executive Director

**IN ATTENDANCE:** Mr P K Corsar, NHS Board Chairman  
Mrs S Goldsmith, Director of Finance  
Mr N J Agnew, Corporate Affairs Manager/Board Secretary  
Mr M White, Pricewaterhouse Coopers  
Mr P Woods, Bentley Jennison  
Mr S Hallsworth, Bentley Jennison  
Mrs M Holmes, Internal Audit Consortium  
Mr N Billing, Counter Fraud Services

1. **WELCOME**

Mr Sutherland welcomed members to the meeting. He extended a particular welcome to Steve Hallsworth from Bentley Jennison and to Neil Billing who was attending to give a presentation on the work of Counter Fraud Services.

2. **COUNTER FRAUD SERVICES**

The Committee received copies of: a Board Briefing on the Counter Fraud Services Steering Group; CEL 3(2008) Strategy to combat NHS Fraud in Scotland; Counter Fraud Services Annual Report 2006/2007.

Mr Billing gave a detailed presentation encompassing: an introduction to Counter Fraud Services; what is fraud/does it exist in the NHS?; Investigation of staff fraud; the actual process; and staff awareness. He stressed that the work of Counter Fraud Services encompassed any Fraud perpetrated against the NHS, including by the general public. He reported the intention to re-launch the National Fraud Initiative, and he highlighted the role for NHS Boards in publicising the work of Counter Fraud Services, and the local Fraud Strategy, across the NHS system.

In discussion, he confirmed that, generally speaking, there was Staff Side support for the work of the CFS, but that there remained a group of Trade Unions which was not yet supportive. He acknowledged the role for the CFS in advising local systems about priorities and how these might be addressed through Audit processes, and confirmed that he had discussed this issue with the Director of Finance and the Head of the Internal Audit Consortium, with a view to the CFS working with Auditors on the development of a Risk Assessment Tool which would inform future workflows.

Mr Woods confirmed that the issues highlighted represented work in progress for Internal Audit, including through "Directional Testing".

Mr Billing acknowledged that the work of Counter Fraud Services may highlight issues which could merit criminal proceedings, and he advised that, in such cases,

reports, based on judgements around materiality, were made by the CFS direct to the Procurator Fiscal. He also acknowledged the potential for disciplinary procedures invoked following CFS investigations to prejudice the legal defence.

Mrs Holmes confirmed that NHS Lanarkshire had a Policy and Strategy for dealing with Fraud, which was taken forward through Partnership arrangements and was reflected in the Internal Audit Plan.

Mrs Goldsmith undertook to take forward further discussions with Internal Audit and Human Resources, around reflecting on the level of proactivity in the implementation of the Strategy.

**Director of Finance**

Mr Billing acknowledged an issue raised by the Committee Chair about the potential for local NHS Boards to learn from the experience of other systems throughout the NHS in Scotland. He highlighted the position of one NHS system which had a significant level of referrals to CFS, and the approach taken within Greater Glasgow and Clyde NHS Board where the Fraud Policy was disseminated to all staff. He advised that Greater Glasgow and Clyde was also currently taking forward work around communicating the Fraud Policy publicly.

Mr Sutherland emphasised that NHS Lanarkshire would wish to further develop its approach to Fraud, building on the work of Counter Fraud Services and experience drawn from other NHS systems, including taking account of the issues raised in Mr Billing's presentation and in the National Fraud Strategy.

Mrs Goldsmith acknowledged the need for Executive ownership of the local approach to fraud, and undertook to raise this matter with the Corporate Management Team.

**Director of Finance**

Mr Woods explained that Bentley Jennison had a Business Integrity Unit in England to support fraud initiatives, and he confirmed that he would consider the way in which the work of the Unit might assist the NHS Lanarkshire endeavour around Fraud.

**Bentley Jennison**

It was agreed that, at its next meeting, the Audit Committee would consider the extant Fraud Policy and the 'Whistleblowing Policy' in the context of the Public Interest Disclosure Act, along with exemplar policies from other NHS systems.

**Director of Finance**

Mr Sutherland extended his and members' appreciation to Mr Billing for his attendance and for the information shared with the Committee.

#### **THE COMMITTEE:**

1. Noted the presentation on the work of Counter Fraud Services.
2. Asked to receive our further report, reflecting the issues raised in discussion.

**Director of Finance**

3.

#### **MINUTES**

The Minute of the Meeting held on 11 December 2007 was submitted for approval and signature.

**THE COMMITTEE:**

1. Approved the Minute for signature.

4. **MATTERS ARISING**

1. **Medical and Clinical Audit**

Mrs Goldsmith acknowledged the emphasis placed, during discussion at the previous meeting, on the need to ensure that there were appropriate linkages in place between Audit and Clinical Governance, and she undertook to pursue this issue further with the Medical Director, with a view to the Medical Director attending a future meeting of the Committee to update members on progress in establishing the Clinical Governance Strategy and supporting structures.

**Director of  
Finance**

Mr Corsar advised that it was the intention to hold a Board Seminar on Clinical Governance, as soon as possible after the appointment of the Head of Clinical Governance and Risk Management.

5. **GOVERNANCE ISSUES**

1. **Law Sale Update**

The Committee considered an update report on the Law sale.

The Director of Finance reminded members of the previously reported, significant effort that had gone into progressing all aspects of the Law sale, in order to achieve all of the Statutory Consents set out in the Missives, and confirmed that when they had been achieved, the sale would be completed and Title Transfer would take place. She reported on further progress with the Statutory Consents and with Title Transfer, including in relation to negotiations about the NHS Lanarkshire contribution to the distributor road and roundabout access to the site. She stressed that the District Valuer had been involved throughout the negotiations for the Law site, and advised that a meeting with the DV was planned, to include the Board's Property adviser and an Officer from NHS Lanarkshire, in order to ensure that the maximum value was being achieved from the sale, taking into account legal opinion and Quantity Surveyor opinion on the validity of the cost claims.

**THE COMMITTEE:**

1. Noted the Update on Law Sale.
2. Noted the planned completion of the sale and the subsequent financial flows.
3. Asked to receive a further report.

**Director of  
Finance**

**Director of  
Finance**

2. **Payment Verification Report and Quality Outcomes Framework**

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

Mrs Goldsmith highlighted the position with regard to Ophthalmic, Dental and Medical reports, which raised no significant issues. She explained that the Pharmacy reports for 2007/2008 had changed significantly, with many items previously being reviewed no longer forming part of the Pharmacy payments, as a result of the introduction of the new Pharmacy Contract. She explained that a national group had

been set up to review the Payment Verification process, and advised that the results of the review were incorporated into the report.

She also reported on the position with regard to Payment Verification, around: visits conducted on the post-payment verification process for global sum, additional services and enhanced services; visits for the Quality and Outcome Framework; visits due to the high level of exception reporting identified through the pre-payment verification process; and visits due to exceptional high levels of payments from the Quality and Outcomes process. She stressed that all Payment Verification processes were governed by the recent circular CEL (2007) 12 – Family Health Services – Payment Verification Procedures. She reported that pre-Payment Verification would be conducted in April 2008, before the final sign-off would be given to the Quality and Outcome Framework payment for 2007/2008.

In response to a question from Mr Sutherland, Mr Woods undertook to examine further the issue of exception reporting identified through the pre-Payment Verification process.

Mr Sutherland sought clarification on whether there was any level of underlying risk to the system around Pharmacy reports. Mrs Holmes confirmed that an Audit study in this area was currently being finalised.

#### **THE COMMITTEE:**

1. Noted the Payment Verification Update on information from NSS Practitioner Services.
2. Asked to receive a further report.

**Director of  
Finance**

#### 3. Shared Services Update

The Committee considered an update on the National Shared Support Services (NSSS) project.

Mrs Goldsmith reported that, since the last meeting of the Committee, significant progress had been made within the Consortium, led by NHS Ayrshire and Arran. She highlighted the principal issues in relation to the position nationally, the position locally and the position with regard to the Consortium. Nationally, the Finance Director at the Scottish Government Health Department had indicated his intention to support the Project Team recommended way forward, and formal confirmation of this was expected at an early date. Locally, a number of issues in relation to migration were moving forward, with the Project Plan currently approximately one week behind timescale, although the anticipated go-live date for migration remained 14 April 2008. This process was being overseen by the Project Board, against the backcloth of a Programme Initiation Document and an active Risk Register which was updated at each Project Board meeting. The Consortium was a recognised Pathfinder Project and, as such, was supported by the National Project. The need for NHS Lanarkshire partnership within the Consortium to add value was recognised.

Mrs Goldsmith reported that the next steps involved: end user training and testing throughout March, leading to the key go-live work commencing in mid-March and continuing through mid-April; close monitoring of the performance of the new system following migration to Cedar 3.4, and a full post-implementation review. She stressed that key members of the Consortium Team were working closely with ATOS, which was providing the Managed Technical Service to the Consortium, to ensure that the anticipated improvements in day-to-day delivery of the system compared to current experience were achieved.

In discussion, she confirmed that the impact of the project on staff levels, overtime and efficiency savings were assured, and would be achieved by managing natural turnover.

**THE COMMITTEE:**

1. Noted the update report on the National Shared Support Services (NSSS) project.
2. Asked to receive further reports.

**Director of  
Finance**

4. **PACS/Siemens Contract**

The Committee considered a report on the removal of the picture archiving system (PACS) from the Summit Contract at Wishaw General Hospital.

Mrs Goldsmith reminded members of discussion at the meeting of the Committee in December 2007 when this item was introduced. She explained that the current position would see NHS Lanarkshire scheduled to implement the new system at Hairmyres and Monklands Hospital in June 2008, and at Wishaw General Hospital in October 2008. Whilst notice had been served on the Hairmyres and Monklands Contracts, which were let on an annual rolling basis, the Wishaw Contract was embedded in the Equipment Provision Schedule within the PFI Contract, with no facility to exit in advance of the termination date for the main Contract. She highlighted the principal issues in relation to the stage of negotiations with Summit and Siemens, including the suggested level of financial compensation and planned further discussions to limit as far as possible the level of compensation that would apply. She stressed that provision had been made within the Financial Plan for a level of compensation, commensurate with the current compensation position.

In discussion, she acknowledged that the driver for this change had been a national decision, but advised that the responsibility for meeting any compensation payments considered to be due would rest with local systems. She reported that some consideration had been given to a possible technical solution, and undertook to pursue this further with the General Manager for eHealth. She advised that there would be a requirement to report the position to the NHS Board, to the Central Legal Office and to the Scottish Government Health Department, as a "Loss in Compensation".

**Director of  
Finance**

**THE COMMITTEE:**

1. Noted the current status of the withdrawal of the Picture Archiving System (PACS) from the existing NHS Lanarkshire providers.
2. Noted the potential financial exposure in relation to the removal of the PACS from the Summit Contract at Wishaw General Hospital.
3. Asked to receive a further report.

**Director of  
Finance**

6. **INTERNAL AUDIT**

1. **Internal Audit - Activity Report to 29 February 2008**

The Committee considered a report on Internal Audit activity to 29 February 2008.

Mr Woods explained that, against the Operation Plan for 2007/08 approved by the Audit Committee in February 2007, the report summarised the outcome of work completed for the period April 2007 – February 2008, and incorporated cumulative date in support of Internal Audit performance and the linkages between Internal Audit work and the annual opinion. He explained that progress against the Operational Plan was 85% complete, and that slippage in the reporting timetable due to a staff vacancy and sickness would be picked up under the Partnership Agreement, such that the Plan remained on target for completion by 31 March 2008.

He highlighted the position in relation to the 10 final reports for 2007/08 that had been issued since the last report to the Audit Committee, in relation to: software licenses; application review Wishaw Laboratories; Debtors; Losses; PDA Security; Application Review PMS; building, land, plant and moveable equipment; follow-up record management; follow-up Corporate Green Code; follow-up Medicines Management. He highlighted, for each Report, the summary of performance, opinions and recommendations, along with Executive Summaries and agreed Action Plans, and definitions of the categorisation of recommendations and overall opinions.

Mrs Goldsmith acknowledged members' concerns about some of the findings in the report on Debtors, and undertook to give the matter further consideration.

**Director of Finance**

Mr Woods stressed that the lessons learned from the Audit processes adopted in relation to the reported areas, would inform subsequent Audit Plans. He suggested that the level of assurance which the Committee should be seeking in relation to audited areas was "substantial", as opposed to "adequate", and confirmed that this was the assurance level which Internal Audit was working to.

On a general point, members expressed a wish to see, in future reports, a clearer relationship between Audit headings and the subject matter of the Audit, as well as clearer definitions in the narrative.

**Bentley Jennison**

Mr Woods confirmed that reasonable progress had been made in relation to Records Management, Corporate Greencode and Medicines Management, which were the subject of follow-up reports.

In response to a question from Mr Sutherland about the assurance level of "adequate/limited", given for the Audit of the Hairmyres Pharmacy, Mrs Holmes explained that the procedures audited at Hairmyres Hospital were similar to those in place within other NHS systems. She sought to reassure the Committee that the assurance level given would improve, on the basis of further discussions with the Chief Pharmacist.

#### **THE COMMITTEE:**

1. Noted the report on Internal Audit activity to 29 February 2008.
2. Asked to receive a further report, structured to reflect the comments and concerns raised by members.

**Bentley Jennison**

#### **2. Executive Summary on Best Value Reviews to 29 February 2008**

The Committee considered an Executive Summary on Best Value Reviews to 29 February 2008.

Mr Woods reported that within the Operational Plans for 2007/08, approved by the Audit Committee in February 2007, some areas of best value were identified, viz: taxis for Wishaw; Infection Control; Catering and Hospitality; GP access and opening hours; invoice queries; immunisation; and use of Management Consultants. He explained that the report before the Committee was in relation to Catering and Hospitality, reports on the other areas either having previously been presented, or in preparation. He referred members to the main issues and the agreed action plan for Catering and Hospitality.

In discussion, members highlighted apparent omissions from page 6 of the report, and expressed a concern that the target date for implementation, viz: 10 March 2008, had passed without implementation having been concluded.

Mrs Goldsmith confirmed having raised her concerns on these matters with the Director for Strategic Implementation, Planning and Performance, given his Executive Lead responsibility for Property and Support Services. He had confirmed that management issues which had impacted on the level of compliance, were now being addressed.

Mrs Holmes acknowledged views expressed by members about the need for equitable application of procedures and costs between the PFI sites and Monklands Hospital. She confirmed that Internal Audit had undertaken comparative work in relation to costs, schedules and portion control between the PFI sites and Monklands Hospital, including wastage, which increased costs, and reported that work towards standardisation across the system was in hand.

Mr Woods undertook to provide, for the Committee, enhanced descriptions on the scope of Value for Money (VFM) Reviews.

**Bentley  
Jennison**

Mrs Goldsmith acknowledged that issues to be considered in relation to Catering, included the Board's Healthy Eating Policy, pricing structures and Staff Side support. She undertook to pursue these issues further, in discussion with the Director for Strategic Implementation, Planning and Performance. Arising from this, a further report would be brought to the Committee, to update members on the breadth and scale of the key issues, with an indication of the priorities and how these would be addressed.

**Director of  
Finance**

#### **THE COMMITTEE:**

1. Noted the Executive Summary on Best Value Reviews to 29 February 2008.
2. Asked to receive a further report, reflecting the issues raised in discussion.

**Director of  
Finance with  
Bentley  
Jennison**

3. Draft Audit Plan for 2008/2009

The Committee considered a draft Audit Plan for the period 2008/2009.

Mrs Goldsmith explained that the Draft Audit Plan had been prepared following an Audit Needs Assessment, and was formulated with the aim of moving the level of assurance from "adequate" to "substantial". She confirmed that the Draft Audit Plan had been considered by the Corporate Management Team on 6 March 2008 and also had been the subject of dialogue with individual Executive Directors.

Mr Woods confirmed the intention to bring to the next meeting of the Committee the 3 year Audit Strategy within which the draft Audit Plan for 2008/2009 would sit, with the aim of demonstrating to members the intended strategic coverage of the Audit approach against the identified key risks.

**Bentley  
Jennison**

Mr Agnew confirmed that, at its meeting on 17 December 2007, the Board's Health and Clinical Governance Committee had considered the arrangements in place in relation to Information Governance. He undertook to share, with Bentley Jennison, the information considered by the Health and Clinical Governance Committee.

**Board  
Secretary**

Mrs Goldsmith acknowledged Members' interest in the area of Property and Property Procurement. She acknowledged the need to ensure that there was appropriate Governance in this area, especially given the substantial Capital Programme on which the Board was about to embark. She advised that options to address this included either the function being fulfilled by the Audit Committee, or establishing a separate Property Committee. Either option would require explicit Terms of Reference in relation to this area. She explained that there was in place the Capital Investment Group, which was an Executive Group, and acknowledged the need for Non Executive Director input to the Governance processes around Property Transactions.

Mr Woods reported that Bentley Jennison undertook Property Transactions testing annually, and undertook to reflect further on this area in relation to the Audit Plan.

**Bentley  
Jennison**

He acknowledged the discussion at the previous meeting, when the Chief Executive had stressed the importance of the Audit endeavour increasingly being focussed on efficiencies. He highlighted the contribution of Best Value reports in this regard, and explained that as part of the generality of Audits, there would be a requirement to consider and highlight the opportunities for savings, with this element of the Internal Audit remit being reflected in the scope of individual audits.

#### **THE COMMITTEE:**

1. Approved the Draft Audit Plan for 2008/2009 and welcomed the accompanying Assurance Framework, and asked that the documents be amended to reflect the key issues raised in discussion.

**Bentley  
Jennison**

Mr Sutherland required to leave the meeting at this point. With Members' agreement, Mr Currie assumed the Chair for the remaining business.

7.

#### **EXTERNAL AUDIT**

1. Implementation of International Financial Reporting Standards (IFRS)

The Committee considered a publication from Pricewaterhouse Coopers *What is IFRS? – Your Questions Answered*.

Mr White gave an in-depth presentation to the Committee on the International Financial Reporting Standards, encompassing: the background and key issues; the timetable for implementation; major areas of impact for NHS Lanarkshire; key factors for successful IFRS transition, and the next steps. He reported confirmation from the Treasury that the implications for systems arising from the introduction of International Financial Reporting Standards would be fully funded.

Mrs Goldsmith acknowledged members' comments in relation to the management of resource issues. She confirmed the intention to hold workshops for Audit Committee Members and senior Finance Teams to explore the key issues in relation to implementation of IFRS, and advised that work would be taken forward with Mark White on the development of a Project Plan. She also advised members that she Chaired the national Technical Accounting Group, and would, thereby, be able to bring to implementation in Lanarkshire the benefit of a national overview.

Mr White confirmed that there would be ample time for taking forward implementation of the IFRS during 2008/2009.

**THE COMMITTEE:**

1. Noted the update report on the implementation of International Financial Reporting Standards (IFRS).
2. Asked to receive a further report.

**Director of  
Finance**

2. Interim Management Letter

The Committee considered the Pricewaterhouse Coopers Interim Management Letter 2007/08 Audit.

Mr White explained that the report considered certain of NHS Lanarkshire's arrangements for the production of the Financial Statements, Governance arrangements and Performance Management, including consideration of the high-level risks identified in the Priorities and Risks Framework document, issued by Audit Scotland and utilised by all NHS External Auditors. He advised that the document also reported on NHS Lanarkshire's commitment to the National Fraud Initiative in Scotland.

He explained that, during the Interim Audit visit, PwC focussed on: Financial Statements (Financial Management, Budgetary Control, the Legality of Financial Transactions); Governance arrangements (Financial and Performance Governance, Risk Management, Internal Audit, arrangements for the prevention and detection of fraud and corruption, rotational review of key systems of financial control, etc Information Management); and Performance Management (Service Redesign and Sustainability, Performance Management, People Management, Partnership working).

He explained that for 2007/08 the risks identified in the Priorities and Risks Framework were substantially the same as those identified in 2006/7, and were grouped into categories, covering: Service Redesign and Sustainability; Partnership working; Governance; Financial Management; Performance Management; People Management; and Information Management. He highlighted the principal findings and recommendations, and the conclusion that no high risk issues were identified during the Audit. He confirmed that PwC would follow-up management progress in implementing the agreed recommendations included in the Action Plan, during the course of the 2008/9 Audit.

**THE COMMITTEE:**

1. Noted the Interim Management Letter 2007/08 Audit.
3. Overview of Scotland's Health and NHS Performance in 2006/07

The Committee considered the Audit Scotland Overview of Scotland's Health and NHS Performance in 2006/07, prepared for the Auditor General for Scotland (December 2007).

Against the backdrop that the draft report had previously been circulated to members, Mr White highlighted the explicit mentions of NHS Lanarkshire, in relation to: Population Health; the Management of the Deficit; and Cancer Waiting Times Performance.

Mrs Goldsmith highlighted the element of the Report relating to performance of the NHS in Scotland on Sickness Absence. She explained that, in NHS Lanarkshire, a pilot initiative to improve the management of sickness absence was being developed by SALUS, the Lanarkshire Occupational Health and Safety Service, with the specific aim of focussing on particular areas of high sickness absence and supporting staffs' return to work.

**THE COMMITTEE:**

1. Noted the Audit Scotland Overview of Scotland's Health and NHS Performance in 2006/07 prepared for the Auditor General for Scotland (December 2007).

4. **Risk Management**

The Committee received and noted Minutes of Meetings of the Risk Management Steering Group held on 4 February 2008 and 3 March 2008.

8. **DATES OF FUTURE MEETINGS**

Wednesday 25 June 2008 at 9.00 am.  
Tuesday 9 September 2008 at 9.00 am.  
Tuesday 9 December 2008 at 9.00 am.

In view of the fact that the meeting scheduled for 25 June 2008 was, specifically, to consider the Annual Accounts 2007/2008, a date for a further Business Meeting of the Committee earlier in June would be canvassed.

**Board  
Secretary**

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NJA/OD  
20 May 2008