

AUDIT COMMITTEE: 20 JUNE 2006

A (M) 06/04
Minutes: 27 – 39

NHS GREATER GLASGOW

**Minutes of a Meeting of the
Audit Committee
held in Board Room 1,
Dalian House, 350 St Vincent Street, Glasgow,
on Tuesday, 20 June 2006 at 9.30 a.m.**

PRESENT

Mrs E Smith (Chair)
Cllr R Duncan
Dr R Groden (To Minute 37)
Cllr J Handibode (To Minute 37)
Mrs S Kuenssberg CBE
Mr A O Robertson OBE (To Minute 37)
Mr D Sime
Mrs A Stewart MBE

IN ATTENDANCE

Mr D Griffin	Director of Finance (From Minute 29)
Mr I Reid	Director of Human Resources (Minute 32)
Mr J C Hamilton	Head of Board Administration (From Minute 29)
Mr J M Hamilton	Assistant Director of Finance (From Minute 29)
Mr A Lindsay	Head of Control & Support Systems (From Minute 29)
Mr P Ramsay	Financial Services Manager (From Minute 29)
Mr J Hobson	Director of Finance – NHS Argyll and Clyde (From Minute 29)
Ms A Bryce	Chief Internal Auditor – NHS Argyll and Clyde (From Minute 29)
Mr C D Revie	PricewaterhouseCoopers (Excluding Minute 28)
Ms S Caldwell	PricewaterhouseCoopers (Excluding Minute 28)
Mr M White	PricewaterhouseCoopers (Excluding Minute 28)
Ms M Couper	Deloitte (From Minute 28)
Ms L Bradley	Audit Scotland (From Minute 29)
Mr S Boyle	Audit Scotland (From Minute 29)

ACTION BY

27 PRIVATE MEETING WITH THE EXTERNAL AUDITORS

As part of the normal corporate governance arrangements and in accordance with its Remit, the Audit Committee had a private discussion with the external auditors without officers of the NHS Board being present.

28 PRIVATE MEETING WITH THE INTERNAL AUDITORS

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29 APOLOGIES

Apologies were intimated on behalf of Mr P Hamilton and Mr C Gibson and Mr P McGinty, both of Deloitte.

30 MINUTES

On the motion of Mr A O Robertson, seconded by Mrs A Stewart, the Minutes of the meeting on 9 May 2006 [A (M) 06/03] were noted as a correct record and signed by the Convener.

31 MATTERS ARISING FROM THE MINUTES

In respect of Minute 23, the Financial Governance and Audit Manager undertook to report progress on the development of a formal service level agreement in respect of the PAS Data Migration Project.

**Financial
Governance &
Audit Manager**

Following a question by Mrs Kuenssberg in respect of Minute 23, the Director of Finance explained that staff within CHCPs would continue to be subject to the terms and conditions of their employing authority – either the NHS Board or a local authority – and that guidance had been developed to assist managers with the exercise of their responsibilities within a multi-agency environment.

32 ABSENCE MANAGEMENT

The Convener welcomed the Director of Human Resources to the meeting and reminded Members that it had been agreed at the last meeting (Minute 23 refers) to invite the Director of Human Resources to attend this meeting to report on progress on the issues raised in the internal audit report on absence management.

The Director of Human Resources explained that under the Efficient Government initiative, the NHS Board would be required to reduce absenteeism to meet a target of 4% by March 2008. Absence levels were currently 5.6% and it was planned to achieve a reduction to 4.8% by March 2007 and a further reduction to 4% by the required date of March 2008. A major requirement in meeting these targets was the development of a common policy for NHS Greater Glasgow and Clyde. This had been underway and now had to take account of the assimilation of NHS Argyll and Clyde. The development of the common policy involved a number of aspects including

- Close co-operation with the Area Partnership Forum, the Occupational Health Service and line management;
- A systematic review of absence including return to work interviews and trigger points for both short and long term absences;

- Incorporation of work commenced by Health Improvement staff (formerly Health Promotion staff) for example, stress management;
- Building on the different levels of Scotland's Health at Work (SHAW) awards which had been attained by different parts of the organisation;
- Developing the new organisational structure for human resources to provide dedicated resources which will support management in its efforts to manage absence;
- Discussions with local authorities to ensure absence within CHCPs and CHPs were managed consistently;

The Director of Human Resources commented that conditions of service applied nationally and the flexibility to offer incentives which the former NHS Trusts had enjoyed were no longer available.

Mr Sime advised that the targets set under the Efficient Government initiative had not involved partnership discussion at a national level.

The Director of Human Resources reported that a working group had been set up to develop an action plan for the next 18 months and it was agreed to accept his suggestion that a report on progress be made to a subsequent meeting of the Audit Committee.

**Director of Human
Resources**

Responding to a question by Cllr Duncan, the Director of Human Resources confirmed that absence rates varied between different staff groups but also referred to possible difficulties in current reporting procedures. In response to a question from Mrs Stewart, the Director of Human Resources commented that as indicated in the internal audit report on absence management, there had been variations in practice within NHS Greater Glasgow. In answer to a question by Cllr Handibode, the Director of Finance estimated the potential financial effect of achieving the Efficient Government target but both he and Mr Sime recognised the need for some investment to support the introduction of schemes to assist achieve the required absence targets. In response to a question from Cllr Handibode, the Director of Human Resources confirmed that flexible working practices were being considered.

The Convener thanked the Director of Human Resources for his presentation.

33 INTERNAL AUDIT PROGRESS REPORT

A report of Deloitte (Audit Paper No 06/12) was presented reporting on progress against the internal audit plan and asking Members to note the Annual Internal Audit Report contained within the paper. Ms Couper (Deloitte) explained that this was the final progress report submitted by Deloitte under their contract with the NHS Board and included summaries of the work carried out to complete the internal audit annual plan. Ms Couper summarised the key findings from the 16 reports concluded since the previous meeting of the Audit Committee including the follow up of previous recommendations. One report had priority 1 status and related to the review of payroll

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processing and controls which had focussed on procedures at ward/departmental level. While the audit work did not suggest material or fundamental exceptions, there was notable scope for improvement in the local departmental controls over payroll. Ms Couper summarised the actions being taken by management in response to the internal audit report.

Ms Couper drew Members attention to the Annual Internal Audit Report and its conclusion which stated

“On the basis of work undertaken for the year ended 31 March 2006 we consider that NHSGG generally has an adequate framework of control over the systems we examined as summarised on page 15 (subject to the implementation of the recommendations). In providing such an assessment we would draw to your attention our summary findings as presented in our Individual reports issued throughout the year and particularly the priority one recommendations highlighted on page 17.”

In response to a question from the Convener, Ms Couper confirmed that the internal audit report on discharge management had been considered by the Audit Support Group – Acute. The Director of Finance noted that action was being progressed by the managers responsible and undertook to arrange a progress report to be presented to a future meeting of the Audit Committee. The Director of Finance further reported that a follow up review would be undertaken by the incoming internal auditors of the Healthy Living Initiative in West Dunbartonshire.

**Financial
Governance &
Audit Manager**

The Convener expressed the Audit Committee's gratitude to Ms Couper for the contribution by Deloitte over the last 6 years.

NOTED

34 DRAFT STATEMENT ON INTERNAL CONTROL

A report of the Financial Governance and Audit Manager (Audit Paper No 06/12) was presented reporting on the system of internal control within NHS Greater Glasgow during 2005/2006 including the annual fraud report.

The Director of Finance explained that the report provided an overview of the internal control regime within NHS Greater Glasgow during 2005/2006, including the Annual Fraud Report, and summarised the evidence within the paper. If Members were satisfied with this review, it would form the basis of a statement of assurance from the Audit Committee to the NHS Board. This statement of assurance would in turn inform the wording of the Statement on Internal Control (SIC) which the Chief Executive is required to sign as part of the annual accounts. In response to questions from Mrs Stewart, the Head of Board Administration explained the descriptions used within the statement of assurance provide by the Clinical Governance Committee as part of the evidence to support the overview of the internal control system. The Financial Governance and Audit Manager explained that minor changes to the wording of the draft SIC might be required following the conclusion of discussions with the external auditors.

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DECIDED:

1. That the report on the review of the system of internal control be approved (including the Annual Fraud Report);
2. That the Statement of Assurance by the Audit Committee be approved and submitted to the NHS Board at its meeting on 27 June 2006;
Financial Governance & Audit Manager
3. That subject to any minor amendment agreed with the external auditors, the Statement on Internal Control be approved for submission to the NHS Board on 27 June 2006 with a recommendation that it should be signed by the Chief Executive.
Financial Governance & Audit Manager

35 EXTERNAL AUDIT DRAFT REPORT TO BOARD MEMBERS

A report of PricewaterhouseCoopers (Audit Paper No 06/13) was presented summarising the main issues to emerge from the statutory audit of the Annual Accounts 2005/2006. Mr Revie (PricewaterhouseCoopers) explained that the audit had been carried out in accordance with the Audit Scotland Code of Audit Practice. Governance and performance had been reported to previous meetings of the Audit Committee and the Draft Report to Board Members focussed mainly on financial matters.

The true and fair opinion on the financial statements was unqualified. The regularity opinion on income and expenditure drew attention to patient exemptions in respect of pharmacy, dental and ophthalmic charges. Testing carried out by the NHS Scotland Counter Fraud Services (CFS) indicated some patients had claimed exemptions inappropriately. CFS had extrapolated the test results and this estimated the amount of ineligible exemptions in respect of NHS Greater Glasgow. This matter was included in the Statement on Internal Control which the Audit Committee had approved earlier in the meeting (Minute 34 refers). There were concerns over the robustness of the extrapolation and Mr Revie noted that the non-eligible exemptions arose at the point of sale (third party pharmacies) making it difficult for the NHS Board to exercise effective control over this area.

The Director of Finance summarised the main points within the section of the Draft Report to Board Members which related to financial performance including

1. the NHS Board's financial out-turn for 2005/2006 and the financial plan for 2006/2007;
2. how the surplus in 2005/2006 was achieved from a position which initially projected a deficit;
3. cost pressures faced in 2005/2006 including Agenda for Change, General Medical Services contracts, consultants' contracts and waiting times;
4. the projected financial position in 2006/2007 including predicted cost pressures.

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Mr Revie and Mr White (PricewaterhouseCoopers) commented on the remaining issues within the Draft Report to Board Members including the following matters.

- The Audit Process and Accounting Issues
- System of Internal Control
- Governance
- Performance Management
- Prevention and Detection of Fraud and Irregularities
- Acute Services Programme
- Integration of NHS Argyll and Clyde
- Efficient Government
- Best Value
- Other Business Issues

Mr Revie drew Members attention to the Action Plan contained within the Annual Report to Board Members as Appendix 1. It was agreed this Action Plan would be completed to allow its inclusion in the report submitted to the NHS Board on 27 June 2006.

Director of Finance

NOTED

36 NHS GREATER GLASGOW DRAFT STATEMENT OF ACCOUNTS 2005/2006

A report of the Director of Finance (Audit Paper No.06/14) was presented asking Members to consider the draft Statement of Accounts for 2005/2006 in respect of NHS Greater Glasgow and to recommend their adoption by the NHS Board.

The Director of Finance summarised the key issues in respect of the

- Directors' Report;
- Operating and Financial Review;
- Remuneration Review;
- Statement of Chief Executive's Responsibilities as the Accountable Officer;
- Statement of Board Members' Responsibilities;
- Statement on Internal Control;
- Independent Auditors Report;
- Operating Cost Statement;
- Statement of Recognised Gains and Losses;
- Balance Sheet;
- Cash Flow Statement.

The Director of Finance explained that a number of final changes were being made to the Directors' Report and it was agreed that once these changes had been completed later that day, the amended Directors' Report be issued by e-mail to Members for comment. It was further agreed that if no comments were received by noon of the following day (21 June 2006), the amended Directors' Report would be presented as part of the Annual Accounts to the NHS Board on 27 June 2006.

Director of Finance

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The Head of Board Administration drew Members attention to the need to update the statement on Board Members' interests within the Directors' Report in relation to Members' interests in organisations which have contracts with the NHS Board.

**Head of Board
Administration**

The Convener noted that the updating of the Directors' Report would mean that the Annual Accounts would not be available for issue with the Board papers in accordance with the normal timetable. It was agreed that the Annual Accounts and associated reports should be issued as "to follow" papers.

**Head of Board
Administration**

DECIDED:

That subject to the agreed amendments, the Statement of Accounts for the financial year ended 31 March 2006 be submitted to the NHS Board at its meeting on 27 June 2006 and recommended for adoption by the NHS and submission thereafter to the Scottish Executive.

Director of Finance

37 NHS ARGYLL AND CLYDE

The Convener welcomed to the meeting Mr Hobson, Director of Finance of NHS Argyll and Clyde, Ms Bryce, Chief Internal Auditor of NHS Argyll and Clyde, Ms L Bradley and Mr S Boyle, both of Audit Scotland.

It was explained that with the dissolution of NHS Argyll and Clyde on 31 March 2006, the Project Board had agreed that approval of the 2005/2006 Annual Accounts should be considered by the NHS Board of Greater Glasgow.

37 (a) INTERNAL AUDIT ANNUAL REPORT 2005/2006

The Internal Audit Annual Report 2005/2006 in respect of NHS Argyll and Clyde (Audit Paper No 06/15) was presented by Ms Bryce who explained that the Internal Audit Annual Report was designed to give assurances on the adequacy of arrangements for healthcare governance, staff governance and financial governance and had been prepared in the context of dissolution. Ms Bryce described the range of internal audit work undertaken during 2005/2006 and the other sources of assurance which the report drew on for example, service auditor reports. The overall conclusion of the report was that reliance could be placed on the adequacy of the system of internal control within NHS Argyll and Clyde during 2005/2006. Ms Bryce drew Members' attention to the work of the Dissolution Group which ensured the control framework was maintained throughout the transition process and to the "end of term" reports of the various committees which highlighted those issues and risks which required to be taken forward by the successor Boards.

In response to a question from Mrs Stewart, Ms Bryce explained the process for following up internal audit recommendations.

NOTED

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**37 (b) EXTERNAL AUDIT DRAFT REPORT TO BOARD MEMBERS
2005/2006**

A report of Audit Scotland (Audit Paper No 06/16) was presented setting out the key findings from the audit of the NHS Argyll and Clyde Annual Accounts for 2005/2006. Ms Bradley explained that the Audit had been guided by the Audit Scotland Code of Audit Practice. Mr Boyle took Members through the Report to those Charged with Governance and Ms Bradley presented the External Audit Report 2005/2006. Ms Bradley explained that both the "true and fair" and the regularity opinions were unqualified and drew Members attention to the key aspects which included the management of the dissolution and integration process, the key issues and risks for the successor Boards and the closing financial position.

Ms Bradley highlighted the Action Plan included as Appendix A to the report and it was agreed that the Action Plan would be completed to allow its inclusion in the Final Report to the NHS Board on 27 June 2006. It was further agreed that the Director of Finance should agree with Ms Bradley a number of final changes to the report before it was submitted to the NHS Board.

Director of Finance

Audit Scotland

Ms Bradley thanked Mr Hobson and his staff for their co-operation during the audit process and explained that Audit Scotland would become the external auditors for NHS Greater Glasgow and Clyde from 2006/2007.

NOTED

37 (c) STATEMENT OF ACCOUNTS 2005/2006

A report by the Head of Finance (Audit Paper No 06/17) was presented asking Members to consider the Draft Statement of Accounts in respect of NHS Argyll and Clyde for 2005/2006 and to recommend their adoption by the NHS Board.

Mr Hobson explained that the Annual Accounts had been prepared in accordance with the relevant guidance and on a going concern basis. He referred to the unqualified audit opinion and to the various comments by Audit Scotland on the key issues arising from the audit. In response to a question from Mr Robertson, Mr Hobson described the process which had been followed to arrive at allocations of funding to the successor Boards.

DECIDED:

That the Statement of Accounts for the financial year ended 31 March 2006 be submitted to the NHS Board at its meeting on 27 June 2006 and recommended for adoption by the NHS Board and submission thereafter to the Scottish Executive.

Director of Finance

38 AUDIT SUPPORT GROUPS

**38(a) CORPORATE AND PARTNERSHIPS: MINUTES OF MEETING ON
31 MAY 2006**

NOTED

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ACTION BY

38(b) ACUTE: MINUTES OF MEETING ON 30 MAY 2006

NOTED

39 DATE OF NEXT MEETING

It was agreed that the meeting provisionally scheduled for 27 June 2006 was not now required and the next meeting therefore be scheduled for Tuesday, 12 September 2006 at 9.30 a.m.

The meeting ended at 12.50 p.m.