

**Convener of the Audit Committee**

**STATEMENT ON INTERNAL CONTROL 2006/2007**

**Recommendations:**

The Board is asked to consider the attached Statement of Assurance from the Audit Committee and approve the attached Statement on Internal Control for signature by the Chief Executive as part of the Annual Accounts 2006/2007.

**Background:**

As Accountable Officers, Chief Executives of NHS Boards have responsibility for maintaining a sound system of internal control within their organisations. The Scottish Executive issued HDL (2002) 11 – “Corporate Governance: Statement on Internal Control” – in March 2002 which requires Chief Executives of NHS Bodies as Accountable Officers to sign a Statement on Internal Control (SIC) as part of the annual accounts. The SIC describes the effectiveness of the system of internal control; it is not restricted to internal financial controls and considers all aspects of the organisation’s system of internal control including clinical governance, staff governance and risk management. If any significant aspect of the system of internal control is found to be unsatisfactory, this should be disclosed in the SIC.

Guidance issued by the Scottish Executive to support HDL (2002) 11 states that NHS Boards are responsible for reviewing the effectiveness of internal control having regard to the assurances obtained from the Audit Committee and any other standing committee which covers internal control e.g. risk management and clinical governance committees. The Remit of the NHS Greater Glasgow and Clyde Audit Committee incorporates this responsibility; it states that the Audit Committee shall be responsible for review of the NHS Board’s system of internal control and making recommendations to the NHS Board regarding the signing of the SIC by the Chief Executive. In addition, the Audit Committee Handbook issued in April 2004 by the Scottish Executive Health Department requires Audit Committees to evaluate the internal control environment and provide a statement of assurance to the NHS Board.

The format of the SIC and its contents are specified in HDL (2002) 11 and subsequent guidance issued by the Scottish Executive. The SIC for 2006/2007 (see Appendix 2) has been prepared to comply with this guidance.

**Statement of Assurance and Statement on Internal Control**

At the meeting on 5 June 2007, the Audit Committee reviewed the system of internal control and based on this review, approved the following documents and recommended that the Chief Executive

should sign the SIC;

0. The attached Statement of Assurance to the NHS Board on the system of internal control within NHS Greater Glasgow and Clyde (Appendix 1);
0. The Statement on Internal Control for NHS Greater Glasgow and Clyde. (This forms part of the Statement of Accounts – Board Paper No 07/25 – but for ease of reference a copy is reproduced here at Appendix 2.)

Alan Lindsay  
Financial Governance and Audit Manager  
0141 201 4771

**STATEMENT OF ASSURANCE BY NHS GREATER GLASGOW AUDIT COMMITTEE  
IN RESPECT OF THE SYSTEM ON INTERNAL CONTROL  
WITHIN NHS GREATER GLASGOW**

As Accountable Officer, the Chief Executive is required to sign a Statement on Internal Control as part of the Annual Accounts and within this Statement on Internal Control, is required to describe the effectiveness of the system of internal control and to declare any significant aspect where this system is unsatisfactory.

In accordance with its remit and the Audit Committee Handbook issued by the Scottish Executive, the Audit Committee conducted a review of the system of internal control within NHS Greater Glasgow and Clyde. The result of this review is reported in this Statement of Assurance to the NHS Board and is intended to inform the Statement on Internal Control.

The Audit Committee's review of the system of internal control was informed by the following sources.

0. All matters considered by the Audit Committee during 2006/2007, including matters considered by the Audit Support Groups;
0. Reports issued by the internal auditors, including the annual statement by the Head of Internal Audit of his opinion on the adequacy and effectiveness of the system of internal control;
0. Assurance statements on behalf of the Clinical Governance Committee, Staff Governance Committee, Risk Management Steering Group, Audit Support Group – Corporate and Partnerships and Audit Support Group – Acute.
0. Reports issued by Audit Scotland as part of their audit of the financial statements;
0. Private discussions with both the external and internal auditors;
0. Review of the governance arrangements against the extant guidance from the Scottish Executive Health Department.

**Conclusion**

Having taken into account the foregoing sources of information, it is the opinion of the Audit Committee that there was an adequate system of internal control in place within NHS Greater Glasgow and Clyde throughout 2006/2007. There are no significant matters relating the systems of internal control which require to be disclosed in the Statement of Internal Control.

It is however appropriate that the Statement on Internal Control should refer to the following issues

Risk Management

Work is ongoing to complete the process for identifying and reporting corporate risks

0. The NHS Greater Glasgow Risk Management Strategy, including the formation of the Risk Management Steering Group, was approved by NHS Board in March 2005. While the underlying principles have remained unchanged, the Strategy has been amended to reflect organisational changes, principally the transition to single system working and the assimilation of Clyde.

0. The risk management arrangements in place throughout the year largely reflected the previous organisational structure and work is ongoing to harmonise these arrangements. Key elements of this on going work are:
- the approval of a Risk Register Policy by the expanded Risk Management Steering Group in December 2006, and by the Audit Committee in March 2007;
  - the presentation of a report on corporate risks to the Audit Committee in March 2007, when a process was approved for identifying and reporting corporate risk to the Audit Committee by linking with the divisional risk registers and performance management process.

#### Fraudulent Claims by Patients for Exemption from NHS Charges

As in previous years, NHS Scotland Counter Fraud Services (CFS) has produced extrapolations based on the results of their patient exemption checking work. These extrapolations are an attempt to estimate the level of Family Health Service income lost, due to patients that have fraudulently or erroneously claimed exemption from NHS charges, and have, in previous years, resulted in disclosures in the Statement on Internal Control and the Auditor's Report. The extrapolations for 2006/07 indicate a potential fraud/error level of £9.7 million. CFS has also indicated that a revised methodology has been used and this has highlighted an issue with the validity of the extrapolations. In addition, the 2006/07 extrapolations cannot be meaningfully compared with previous years because of the change in methodology and the incorporation of Clyde part way through the reference period. Although there are issues in relation to the validity and accuracy of these extrapolations, they potentially indicate that there remains a level of fraud/error which is worthy of note and, accordingly, it is appropriate to refer to this in the Statement on Internal Control.

**The Audit Committee recommends therefore that the NHS Board should approve the Statement on Internal Control and that the Statement on Internal Control should be signed by the Chief Executive as Accountable Officer.**

Mrs E Smith  
Chair, NHS Greater Glasgow Audit Committee  
5 June 2007

## STATEMENT ON INTERNAL CONTROL

### Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

In terms of enabling me to discharge my responsibilities as Accountable Officer, the following arrangements and processes were in place throughout the financial year:

- a Board which meets regularly to consider the plans and strategic direction of the organisation, and consists of both executive and non executive members;
- single system governance and management arrangements with clear supporting lines of accountability and agreed scheme of delegation and standing orders; and
- the consideration by the Board of periodic reports from the chairs of the staff governance, clinical governance and audit committees, concerning any significant matters on governance and internal controls.

In addition, we are working towards the implementation of a unified Risk Management Strategy and robust prioritisation methodology based on risk ranking; whilst this was not in place throughout the year, there were, however, strategies in existence in the previous NHS Boards.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds. Its main purpose is to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

### Purpose of the System of Internal Control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This process has been in place for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Executive Health Department.

### Risk and Control Framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

The NHS Greater Glasgow Risk Management Strategy, including the formation of the Risk Management Steering Group, was approved by NHS Board in March 2005. While the underlying principles have remained unchanged, the Strategy has been amended to reflect organisational changes, principally the transition to single system working and the assimilation of Clyde.

The risk management arrangements in place throughout the year largely reflected the previous organisational structure and work is ongoing to harmonise these arrangements. Key elements of this on going work are:

- the approval of a Risk Register Policy by the expanded Risk Management Steering Group in December 2006, and by the Audit Committee in March 2007;

- the presentation of a report on Corporate risks to the Audit Committee in March 2007, when a process was approved for identifying and reporting corporate risk to the Audit Committee by linking with the divisional risk registers and performance management process.

NHS Greater Glasgow and Clyde has established a Risk Management Steering Group (RMSG) to develop a common set of standards and principles to underpin risk management across the single system.

Operating under the joint chairmanship of the Medical Director (as executive lead for clinical risk) and Director of Human Resources (as executive lead for non-clinical risk), the RMSG also has a role in reviewing the effectiveness of the risk management arrangements on behalf of the Chief Executive. During the year, the membership of the RMSG has been expanded to include a wider range of senior management representation from all parts of the organisation. The RMSG has developed the Board's single system risk management strategy, which has been endorsed by the Audit Committee and has received Board approval.

NHS Greater Glasgow & Clyde is a large, diverse and complex organisation with Management Teams and staff managing risk as an integral part of what they do every day. Risk is managed in a way that best suits individual management arrangements based on the guiding principles and general approach described in the risk management strategy. This ensures that common standards for the management of risk apply across NHS Greater Glasgow & Clyde and support the assurance and business requirements of the NHS Greater Glasgow & Clyde Board and its corporate management.

The key components of the risk management framework are noted below:

- risk identification – to minimise the likelihood and severity of risk events, all incidents or near misses are recorded through Incident Recording systems;
- risk assessment - all risks are assessed using a standard classification matrix which is applied consistently across NHGGC; this involves the assessment of risk in terms of the consequences and the likelihood of occurrence;
- risk registers - each Division, Directorate or Partnership is responsible for maintaining its own risk register, which is used by each management team to inform priorities for the local implementation and monitoring of agreed mitigating controls; the Performance Review Group manages the higher level corporate risks around the achievement of the NHSGGC corporate objectives;
- risk action plans - all risks identified and prioritised for action within a risk register require a supporting action plan, ensuring that the risk is managed to an acceptable level;
- risk escalation - if a significant risk is identified that is considered impossible or impractical to manage at a local management team level, then that risk should be reported for review by the Director, or COO, and reported to Headquarters; Assessment and improvement should then be monitored through inclusion in the NHS Greater Glasgow & Clyde Corporate Risk register.

The NHS Board is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. It also continues to adapt its governance arrangements to take account of changes within its internal organisational structure. In particular, during the year to 31 March 2007, and up to the signing of the accounts, it has:

- continued to enhance and harmonise its governance arrangements to support the new organisational structure, including the implementation of a new set of Standing Financial Instructions;
- continued the process to integrate the Clyde area of the former Argyll and Clyde Health Board; whilst this has been completed, there are some areas where further work is ongoing to achieve full harmonisation;
- continued, within the ICT environment, to move towards the development of a consistent approach to IT security and business continuity planning.

## **Review of Effectiveness**

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by:

- the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the ongoing work of and annual assurance statements provided by the Audit Committee, Staff Governance Committee, Clinical Governance Committee, and Risk Management Steering Group;
- the work of the internal auditors, who submit to the organisation's Audit Committee regular reports which include the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement;
- comments made by the external auditors in their management letters and other reports.

The control mechanisms are overseen and continually evaluated by the NHS Board, its standing committees (as detailed in the Directors' Report) and a number of other groups:

- the Performance Review Group (PRG), which has delegated responsibility from the NHS Board to monitor organisational performance, resource allocation and utilisation, and the implementation of NHS Board agreed strategies, including the approval of key stages in the implementation of such strategies. The PRG also ensures that there is a coordinated overview of performance across all domains of the Performance Assessment Framework; it met 6 times last year;
- the Remuneration Committee, which is a sub-committee of the Staff Governance Committee and deals with all aspects of the Executive Pay arrangements. The Committee met 5 times during 2006/07;
- the Involving People Committee serves to ensure that the NHS Board discharges its legal obligations to involve, engage and consult patients, the public and communities in the planning and development of services and in the decision-making about the future pattern of services. The Committee met on 6 occasions during 2006/07;
- the Risk Management Steering Group (as detailed above) met 3 times during 2006/07.

I have reviewed the evidence available to me regarding the operation of the system of internal control during the year and can confirm that an effective system continues to be in place or that where weaknesses have been identified plans are in place, or are being implemented, to ensure that they are addressed. Arising out of this review, the following issue requires to be disclosed.

As in previous years, NHS Scotland Counter Fraud Services (CFS) has produced extrapolations based on the results of their patient exemption checking work. These extrapolations are an attempt to estimate the level of Family Health Service income lost, due to patients that have fraudulently or erroneously claimed exemption from NHS charges, and have, in previous years, resulted in disclosures in the Statement on Internal Control and the Auditor's Report. The extrapolations for 2006/07 indicate a potential fraud/error level of £9.7 million. CFS has also indicated that a revised methodology has been used and this has highlighted an issue with the validity of the extrapolations. In addition, the 2006/07 extrapolations cannot be meaningfully compared with previous years because of the change in methodology and the incorporation of Clyde part way through the reference period. Although there are issues in relation to the validity and accuracy of these extrapolations, they potentially indicate that there remains a level of fraud/error which is worthy of note and, accordingly, it is appropriate to refer to this in the Statement on Internal Control.

**T A Divers**  
**Chief Executive and Accountable Officer**  
**26 June 2007**