

A (M) 04/3
Minutes: 18 - 32

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, 6 July 2004 at 9.30 a.m.**

PRESENT

Mr C Scott
Ms R Dhir MBE
Mr P Hamilton
Cllr J Handibode
Mr A Haseeb
Mr I Irvine
Mrs E Smith
Mrs A Stewart MBE

IN ATTENDANCE

Mrs W Hull	Director of Finance
Mr J C Hamilton	Head of Board Administration
Mr J M Hamilton	Assistant Director of Finance
Mr A Lindsay	Head of Control & Support Systems
Ms E McLeish	Corporate Reporting Manager
Mr S Gibson	Deloitte
Mr P McGinty	Deloitte
Mr S Kelly	Deloitte
Mr C D Revie	PricewaterhouseCoopers
Mr M Thomson	PricewaterhouseCoopers
Mr M White	PricewaterhouseCoopers

ACTION BY

18 PRIVATE MEETING WITH EXTERNAL AUDITORS

As part of the normal corporate governance arrangements, the Committee had a private discussion with the External Auditors without officers of the NHS Board being present.

19 PRIVATE MEETING WITH INTERNAL AUDITORS

As part of the normal corporate governance arrangements, the Committee had a private discussion with the Internal Auditors without officers of the NHS Board being present.

20 APOLOGY

An apology was intimated on behalf of Cllr D Collins.

ACTION BY

21 MINUTES

On the motion of Mr Scott, seconded by Mrs Stewart, the Minutes of the meeting on 11 May 2004 were noted as a correct record and signed by the Convener.

22 MATTERS ARISING FROM THE MINUTES

In respect of Minute 13, the Convener reported that the Acting Director of Health Promotion had requested that she be allowed to present a report to the Audit Committee on the arrangements for allocating funding to and monitoring the performance of voluntary bodies. It was agreed that this presentation should be received at the next meeting of the Committee. Also in respect of Minute 13, the Convener reported that the Internal Auditors had issued a draft report on funded bodies and that the final report including the management response would be presented to the next meeting.

**Acting Head of
Health Promotion**

**Deloitte/Head of
Control & Support
Systems**

In respect of Minute 14, the Convener reported that the Internal Auditors had also issued a draft report on Part 4 of the Adults with Incapacity Act (Scotland) 2000 and that the final report including the management response would be presented to the next meeting.

**Deloitte/Head of
Control & Support
Systems**

In respect of Minute 15, the Convener reported that following the Audit Committee workshop on 11 May 2004, progress continued to be made on the new divisional corporate governance arrangements and the development of structures for managing risk.

23 INTERNAL AUDIT ANNUAL REPORT 2003/2004

A report of Deloitte (Audit Paper No 04/09) was presented summarising the results of the internal audit work programme undertaken at the NHS Board and across the four former NHS Trusts within NHS Greater Glasgow in respect of the year ended 31 March 2004 and providing the Audit Committee with an Annual Internal Audit Statement.

Before this report and other papers relating to the NHS Board's Statement of Accounts were considered, the Convener reminded the Committee that Members of the NHS Board had joint and several responsibilities for the audit process and should therefore not rely solely on the review of others in discharging their responsibilities in respect of the Statement of Accounts.

Mr Gibson (Deloitte) drew Members' attention to the key matters contained in the report which included the following.

- An update on internal work since the last meeting of the Audit Committee;
- A summary of the overall results of work within the four NHS Trusts;
- A synopsis of the reports issued in respect of the NHS Board;
- The Annual Internal Audit Statement based on the internal audit work carried out.

In addition, Mr Gibson commented on the programme of NHS Trust Audit Committee meetings during 2003/2004 and reported that a total of 18 recommendations throughout NHS Greater Glasgow had been

ACTION BY

categorised as Priority 1.

Mr McGinty (Deloitte) drew Members' attention to the diagrammatic representation of the internal audit coverage and the overall activity summary for the NHS Board contained within the report. Mr McGinty commented that while there were no Priority 1 recommendations in respect of the NHS Board, two such recommendations from the review of payroll services had potential implications on a NHS Greater Glasgow basis. Also there had been serious weaknesses within some voluntary bodies funded by the NHS Board which had been identified during an internal audit review of this subject. In response to a question on the payroll review from Ms Dhir, Mr Gibson and Mr Kelly commented that there was a legal entitlement to recover overpayments of salary and the inclusion of this in contracts of employment would be investigated, with the answer being reported directly to Ms Dhir.

Deloitte

Mr Kelly (Deloitte) reported on the work undertaken since the last meeting of the Committee. This principally consisted of the issue of a draft report in respect of the internal audit review of funded projects. Mr Kelly commented that while weaknesses had been found in the arrangements within the NHS Board, there had been a largely positive reaction to these and progress was being made towards more stable arrangements for the allocation of funding and the control and monitoring of projects. Mr Kelly added that the internal audit review had included work at two individual projects which had highlighted serious weakness in the corporate governance arrangements and shortcomings in financial record keeping. In response to a question from Mrs Smith, Mr Kelly confirmed that the final report and management response would be presented to the next meeting of the Committee.

Deloitte

In response to a question from Cllr Handibode, Mr Kelly commented that the problem with one of the funded projects had been identified by NHS Board officers approximately six months ago and that Internal Audit had been contacted immediately to begin their review. In response to a question from Mrs Stewart on the monitoring of projects, the Director of Finance replied that the project authorisation checklist approved by the Audit Committee in March 2004 was now applied to all new funded projects and the checklist required details of the monitoring arrangements. Members expressed concern that the number of funded projects and the overall level of funding by the NHS Board represented a financial and reputational risk and sought assurance that these risks had been addressed. Mr Revie (PricewaterhouseCoopers) commented that this approach was in line with the national initiative to ensure value for money more rigorously and that the NHS Board's monitoring arrangements might reflect those of the other organisations, such as local authorities, which funded voluntary projects. It was agreed that an early and special meeting of the Audit Committee be convened to consider this matter further and to receive the presentation by the Acting Director of Health Promotion and the internal audit report on funded projects.

**Head of Control &
Support Systems**

Mr McGinty continued his commentary on the Internal Audit Annual Report by drawing Members' attention to the fact that 90% of the internal audit plan had been completed and to the results of the follow up reviews.

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Mr Gibson concluded by highlighting the Annual Statement to the Audit Committee contained within the report and which stated

“On the basis of work undertaken in the year ended 31 March 2004 we consider that the Board generally has an adequate framework of control over the systems we examined as summarised on pages 5 and 11-14 (subject to implementation of the recommendations). In providing such an opinion we would draw to your attention our summary findings as presented in our individual reports issued throughout the year and particularly the PRIORITY 1 recommendations summarised on page 10 and pages 11-14.”

In response to a question from Cllr Handibode, Mr Gibson confirmed that the headings of the chart on page 10 of the report (actual days and plan days) had been transposed.

NOTED

24 STATEMENT ON INTERNAL CONTROL 2004/2005

A report of the Head of Control and Support Systems (Audit Paper No 04/10) was presented inviting Members to review the NHS Board's system of internal control based on evidence provided within the report and to report the outcome to the NHS Board at the meeting on 20 July 2004. Based on the outcome of this review, Members were also asked to approve a draft Statement on Internal Control (SIC) for inclusion in the NHS Board's Statement of Accounts and recommend that the SIC be signed by the Chief Executive. Members were also asked to note the annual fraud report contained within the paper setting out a nil return.

In response to a question from Mrs Smith, the Director of Finance confirmed that following the Audit Committee workshop on 11 May 2004 a number of streams of work were progressing which would result in the production of a pan Glasgow Risk Register for the NHS Board. The work being undertaken would also ensure that the Risk Register would be cascaded throughout NHS Greater Glasgow via the risk management processes embedded in the Divisions.

In response to a comment from Mr McGinty (Deloitte), the Head of Control and Support Systems undertook to correct a typographical error in paragraph 4.1 of the report where the figure “1” should follow the word priority.

Head of Control & Support Systems

DECIDED:

- 1) That a report be submitted to the NHS Board on 20 July 2004 on the Audit Committee's review of the system of internal control.
- 2) That the Statement on Internal Control 2003/2004 be approved and signed by the Chief Executive.
- 3) That the Annual Fraud Report 2003/2004 be noted.

Head of Control & Support Systems

Head of Control & Support Systems

25 EXTERNAL AUDIT: DRAFT ANNUAL; REPORT TO BOARD MEMBERS 2003/2004

A report of PricewaterhouseCoopers (Audit Paper Number 04/11) was presented directing Members' attention to matters of significance that had arisen out of the 2003/2004 audit process and confirming the action planned by management to address the more significant matters identified for improvement. Following a request of Mr Revie (PricewaterhouseCoopers), Members agreed that the following presentations be received.

1. A consolidated external audit report which summarised the issues emerging from the external audits of the four NHS Trusts within NHS Greater Glasgow and the NHS Board. This consolidated report would enable Members to simultaneously consider the NHS Board report (Audit Paper Number 04/11) and the individual reports prepared in respect of each of the four NHS Trusts (contained within Audit Papers Numbers 04/13 – 04/16 inclusive) and which had already been considered by the relevant Divisional Audit Committee.
2. A Review of the Financial Position and Savings Plan.

CONSOLIDATED EXTERNAL AUDIT REPORT TO AUDIT COMMITTEE 2003/2004

Mr Revie described the following matters covered within the report.

Financial Statements

- Stewardship of resources and audit opinions
- Financial performance and position
- Regularity of financial transactions and the audit process

Governance and Business Control

- Prevention and detection of fraud and irregularities
- Standards of conduct, integrity and openness
- System of internal control

Performance

- Use of resources and business issues
- In year value for money studies

Mr Revie drew Members' attention to the fact that all of the true and fair opinions and regularity opinions in respect of the four NHS Trusts and the NHS Board were unqualified. Mr Revie reminded Members that in 2002/2003, the regularity opinion in respect of the NHS Board and Greater Glasgow Primary Care NHS Trust had been qualified on the basis of the absence of post payment verification checks in respect of Family Health Services expenditure during the earlier part of that year. An additional qualification related to the potential level of non-eligible patient exemptions claimed based on work undertaken by the Counter Fraud Service (CFS). Mr Revie reported that as evidence had been provided that post payment verification checks had been in place throughout 2003/2004 the qualification in respect of this matter had been removed. In addition, Mr Revie reported that as a result of further work undertaken by the CFS the qualification in respect of non-eligible

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exemptions had also been removed although the NHS Board's Statement of Internal Control and Director's report contained details of this matter including certain of the mechanisms in place to improve weaknesses in the future in respect of patient exemptions.

Following questions from Ms Dhir, Mr Haseeb and Mr Hamilton, the Convener and Mr Revie explained the pilot work being undertaken by the Primary Care Division in respect of patient exemption. It was agreed that at an appropriate time, the Audit Committee might receive a full report on the issue of patient exemptions by the Counter Fraud Service.

**Head of Control &
Support Systems**

Mr Revie together with Mr Thomson and Mr White (both PricewaterhouseCoopers) described the main issues contained in the consolidated report.

1. All financial targets had been met.
 - The net resource outturn did not exceed the Revenue Resource Limit.
 - The NHS Board had operated within its Capital Resource Limit.
 - The NHS Board had operated within the agreed cash requirements.
2. The audit process had gone well with the exception of some minor problems in respect of the NHS Board. There were extenuating circumstances in respect of these problems which also had to be seen in the context that there had been no significant audit adjustments. Mr Revie thanked the Directors of Finance and their staff for their assistance during the audit process.
3. Significant accounting issues in respect of each NHS Trust were summarised. In respect of the NHS Board, it was noted that the requirement to produce consolidated financial statements for 2004/2005 would place additional pressure on NHS Board staff and that a clear timetable would need to be agreed at an early stage.
4. Members were reminded of the work undertaken (including a series of Audit Committee workshops) to develop new governance arrangements to reflect single-system working.
5. The external audit opinion was unqualified on all the disclosures contained in the Statements of Internal Control produced by the four NHS Trusts and the NHS Board. The results of follow up reviews in respect of previous audit recommendations were favourable.
6. Key business issues were highlighted including
 - New Deal for junior doctors;
 - Waiting list targets;
 - PPP/PFI schemes;
 - Agenda for Change;
 - Consultants' contracts;
 - General Medical Services;
 - Acute Services Review.

ACTION BY

Members were reminded of the reports which the External Auditors had provided in respect of their monitoring of the implementation of the Acute Services Review. Mr Revie explained that a draft report had been submitted to management inviting self-assessment of action in respect of a range of key business issues. This self-assessment would be reviewed by the external auditors and a report presented to a subsequent meeting of the Audit Committee.

**Pricewaterhouse
Coopers**

7. Work had been carried out in respect of two value for money studies in respect of waste management and staff governance, the latter involving data collection only.

Mr Revie drew Members' attention to the action plan contained within the Draft Report to Board Members 2003/2004 (Audit Paper Number 04/11) and it was agreed that this would be completed for submission to the NHS Board on 20 July 2004.

Director of Finance

REVIEW OF FINANCIAL POSITION AND SAVINGS PLAN

Mr Thomson explained that the presentation was intended to consider

- the financial position during 2003/2004 and how the NHS Board achieved a breakeven position;
- the projected financial position for 2004/2005 and the risks faced by the NHS Board.

In respect of 2003/2004, Mr Revie, Mr Thomson and Mr White then commented on a range of issues including the following matters.

- The overall financial position, the pressures faced and the means by which a breakeven position was achieved;
- The position in each of the four Trusts;
- Non recurring relief/savings in respect of NHS Trusts.

The Director of Finance commented that in addition to the matters highlighted in the presentation there was a joint and iterative element to the financial planning by the NHS Board and the Divisions whereby year end breakeven had been achieved in 2003/2004. Mr Revie agreed that progress had been made in terms of single system working.

In respect of the projected financial position in 2004/2005, Mr Revie, Mr Thomson and Mr White commented on a number of matters including the following.

1. The challenge of delivering recurring savings of £58.7 million.
2. The risks which could adversely impact on the projected financial position as previously reported to the NHS Board.
3. Further concerns raised by the External Auditors;
 - Identified cost pressures may be higher than predicted;
 - the levels of non-recurring funding within the system;
 - Whether the rolled forward cost pressures previously funded non-recurrently have been fully reflected in the financial plan;
 - The need to avoid any potential for double counting between the Corporate Recovery Plan and divisional initiatives to manage operational pressures.

ACTION BY

Mr Revie drew attention to the Action Plan included in the presentation and it was agreed that to provide a sense of ownership and to enable it to be monitored, this should be completed by reference to the Corporate Management Team and reported to the Audit Committee.

Director of Finance

In response to a question from Mr Haseeb, Mr Revie explained that the £10m shown at item 9 on page 20 of the presentation related to actions which had still to be identified. The Director of Finance commented that initiatives such as "Better Buying" were already contributing to this. In response to a question from Mr Hamilton, the Director of Finance explained that the figure for reduced management costs shown on page 20 of the presentation had increased.

Members then discussed the respective roles of the Audit Committee and the Performance Review Group (PRG) and it was agreed that the PRG would monitor operational performance and delivery while the Audit Committee would seek assurance that the process for monitoring by the PRG was robust.

In conclusion, Mr Revie explained that the finalised Report to Board Members would be presented to the NHS Board on 20 July 2004.

DECIDED:

That the finalised Annual Report to Board Members be presented to the NHS Board on 20 July 2004.

**Pricewaterhouse
Coopers**

26 STATEMENT OF ACCOUNTS 2003/2004

A report of the Director of Finance (Audit Paper number 04/12) was presented asking Members to consider the Statement of Accounts 2003/2004 and if satisfied, to recommend their adoption by the NHS Board and thereafter, their submission to the Scottish Executive Health Department.

In response to questions by Mr Hamilton and Mrs Stewart, the Assistant Director of Finance agreed to make a number of small presentational amendments to the Statement of Accounts.

**Assistant Director
of Finance**

DECIDED:

That the revised Statement of Accounts 2003/2004 be recommended for adoption by the NHS Board and submission to the Scottish Executive Health Department.

Director of Finance

**27 STATEMENT OF TRUST ACCOUNTS 2003/2004: NORTH
GLASGOW UNIVERSITY HOSPITALS NHS TRUST**

A report of the Chair of the Audit Committee of North Glasgow University Hospitals NHS Trust (Audit Paper number 04/14) was presented asking Members to note the process followed in completion of the NHS Trust's Annual Accounts for the year to 31 March 2004 and if satisfied, to recommend that the Accounts be submitted to the NHS Board on 20 July 2004 for adoption.

It was agreed that the Head of Board Administration should liaise with

ACTION BY

the External Auditors to determine the most appropriate way to present the NHS Trust Accounts to the NHS Board for approval being mindful of the volume of documents involved.

**Head of Board
Administration/
Pricewaterhouse
Coopers**

DECIDED:

That the Annual Accounts for North Glasgow University Hospitals NHS Trust be submitted to the NHS Board on 20 July 2004 for adoption.

Director of Finance

28 STATEMENT OF TRUST ACCOUNTS 2003/2004: GREATER GLASGOW PRIMARY CARE NHS TRUST

A report of the Chair of the Audit Committee of Greater Glasgow Primary Care NHS Trust (Audit Paper number 04/14) was presented asking Members to note the process followed in completion of the NHS Trust's Annual Accounts for the year to 31 March 2004 and if satisfied, to recommend that the Accounts be submitted to the NHS Board on 20 July 2004 for adoption.

DECIDED:

That the Annual Accounts for Greater Glasgow Primary Care NHS Trust be submitted to the NHS Board on 20 July 2004 for adoption.

Director of Finance

29 STATEMENT OF TRUST ACCOUNTS 2003/2004: SOUTH GLASGOW UNIVERSITY HOSPITALS NHS TRUST

A report of the Chair of the Audit Committee of South Glasgow University Hospitals NHS Trust (Audit Paper number 04/15) was presented asking Members to note the process followed in completion of the NHS Trust's Annual Accounts for the year to 31 March 2004 and if satisfied, to recommend that the Accounts be submitted to the NHS Board on 20 July 2004 for adoption.

DECIDED:

That the Annual Accounts for South Glasgow University Hospitals NHS Trust be submitted to the NHS Board on 20 July 2004 for adoption.

Director of Finance

30 STATEMENT OF TRUST ACCOUNTS 2003/2004: YORKHILL NHS TRUST

A report of the Chair of the Audit Committee of Yorkhill NHS Trust (Audit Paper number 04/15) was presented asking Members to note the process followed in completion of the NHS Trust's Annual Accounts for the year to 31 March 2004 and if satisfied, to recommend that the Accounts be submitted to the NHS Board on 20 July 2004 for adoption.

DECIDED:

That the Annual Accounts for Yorkhill NHS Trust be submitted to the NHS Board on 20 July 2004 for adoption.

Director of Finance

ACTION BY

31 CONTRACT FOR INTERNAL AUDIT SERVICES

In response to a question from Mrs Stewart, the Head of Control and Support Systems explained that the current contract for internal audit services expired on 31 March 2005 and that it was intended to include the matter on the agenda of a subsequent Audit Committee meeting.

Head of Control & Support Systems

32 DATE OF NEXT MEETING

DECIDED

That a special meeting be convened in late July or early August 2004 to receive the presentation by the Acting Director of Health Promotion, the internal audit reports on Funded Projects and the Adults with Incapacity (Scotland) Act 2000, a presentation by the Counter Fraud Service and other relevant matters.

Head of Control & Support Systems

That a meeting of the Committee be scheduled for a date to be confirmed in October, 2004.

Head of Control & Support Systems

The meeting ended at 12.45 p.m.