



Greater Glasgow NHS Board

Board Meeting

Tuesday 26 July 2005

Board Paper No 05/46

Convener of the Audit Committee

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**STATEMENT ON INTERNAL CONTROL 2004/2005 -
NHS GREATER GLASGOW**

Recommendation:

Members are 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.

Background

As Accountable Officers, Chief Executives of NHS Boards have responsibility for maintaining a sound system of internal control within their organisation. The Scottish Executive issued HDL (2002) 11 – “Corporate Governance: Statement on Internal Control” – in March 2002. This 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 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. The Remit of the NHS Greater Glasgow Audit Committee incorporates this responsibility when 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 revised Audit Committee Handbook issued in April 2004 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 attached SIC has been prepared to comply with these requirements.

As part of the audit of the annual accounts, the external auditors consider the SIC and in their Final Report to Board Members (Board Paper No 05/47), they state that their opinion on the disclosures contained in the SIC is unqualified.

STATEMENT OF ASSURANCE AND STATEMENT ON INTERNAL CONTROL

For 2004/2005, a single set of audited accounts and accountability statements have been produced covering all of NHS Greater Glasgow. In keeping with this approach, a Statement of Assurance by the Audit Committee is required in respect of NHS Greater Glasgow to inform the preparation of a pan Glasgow SIC.

During 2004/2005, however, Operating Divisions continued to function as separate business units within the context of single system working. Each Division has therefore produced its own SIC together with a statement of assurance by the Divisional Audit Committee to the Divisional Management Team confirming the effective operation of the Divisional systems of internal control. All SIC and statements of assurance have been approved by the Divisional Audit Committees and Divisional Management Teams. The Divisional SIC were presented to the NHS Greater Glasgow Audit Committee at its meeting on 12 July 2005 to inform the preparation of the pan Glasgow SIC.

To complete the picture for NHS Greater Glasgow however, it was also necessary to consider the NHS Board's system of internal control in respect of its strategic, pan Glasgow role together with the operational activity to support this strategic role. A report on this was presented to and approved by the NHS Greater Glasgow Audit Committee at its meeting on 12 July 2005.

Based on the reviews of internal control within the four Divisions and within the NHS Board, the Audit Committee approved at its meeting on 12 July 2005

- A Statement of Assurance to the NHS Board on the system of internal control within NHS Greater Glasgow (Appendix 1) and
- A Statement on Internal Control for NHS Greater Glasgow (This forms part of the Statement of Accounts 2004 /2005 - Board Paper No 05/48 - but for ease of reference a copy is provided here at Appendix 2)

Members are asked to consider the Statement of Assurance on the system of internal control within NHS Greater Glasgow and to approve the Statement on Internal Control for signature by the Chief Executive.

**STATEMENT OF ASSURANCE BY NHS GREATER GLASGOW AUDIT COMMITTEE
TO THE GREATER GLASGOW NHS BOARD
IN RESPECT OF THE SYSTEM OF INTERNAL CONTROL
WITHIN NHS GREATER GLASGOW 2004/2005**

In accordance with its Remit and with the Audit Committee Handbook issued by the Scottish Executive, the NHS Greater Glasgow Audit Committee conducted a review of the internal control environment within NHS Greater Glasgow in respect of the year ended 31 March 2005. The conclusion from this review is summarised in the following Statement of Assurance to the NHS Board.

1 The review by the Audit Committee of the system of internal control within NHS Greater Glasgow was informed by the following sources:

- All matters considered by the Audit Committee during 2004/2005, including matters considered by the Divisional Audit Committees;
- Consideration of the NHS Board's arrangements for corporate governance and risk management;
- Reports issued by the external auditors arising from their audit of the NHS Board's annual accounts;
- Reports issued by the internal auditors, including the annual statement by the Head of Internal Audit of his independent opinion on the adequacy and effectiveness of the system of internal control within NHS Greater Glasgow;
- Private discussions with both the internal and external auditors at the meeting of the Audit Committee on 12 July 2005.

2 Key elements of the review were the Internal Audit Annual Reports 2004/2005 by the internal auditors, Deloitte, which included the independent opinion of the internal auditors on the systems of internal control within the four Divisions and the NHS Board. In the Internal Audit Annual Reports for 2004/2005, this opinion stated

On the basis of work undertaken in the year ended 31 March 2005 the internal auditors consider that the Divisions and the NHS Board generally have an adequate framework of control over the systems they examined (subject to implementation of the recommendations).

(In providing such an assessment the internal auditors drew to our attention their summary findings as presented in their individual reports issued throughout the year).

3 Having taken into account the foregoing sources of information, it is the opinion of the NHS Greater Glasgow Audit Committee that:

- 3.1 Risk Management and internal control are considered by the NHS Board and the NHS Greater Glasgow Audit Committee and are incorporated into the corporate planning and decision making processes of the NHS Board.

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- 3.2 A committee structure has been established to ensure that all aspects of risk relating to the Board's activities are addressed and a Risk Management Strategy for NHS Greater Glasgow was approved by the NHS Board in March 2005.
- 3.3 There are no significant matters relating the systems of internal control within NHS Greater Glasgow which require to be disclosed in the Statement of Internal Control.**
- 3.4 It is however appropriate that attention be drawn to the following matter in the Statement on Internal Control.

In 2003/2004, the Statement on Internal Control disclosed that work carried out by the NHS Scotland Counter Fraud Services (CFS) highlighted that a potentially significant level of incorrect claims may have been made at the point of delivery for exemption from NHS prescription, dental and ophthalmic charges. Extrapolation of the sample results for NHS Greater Glasgow to give an indication of the potential level of Family Health Services (FHS) income error, suggested that the level of income lost in prescription, dental and ophthalmic charges in the year to 31 December 2003 could potentially have been £6 million. No assurances as to the likely accuracy of this estimate were provided however the matter was nevertheless disclosed in the Statement on Internal Control.

The CFS has again carried out this exercise and extrapolation of the sample results for the year to 31 December 2004 suggests that a similar level of erroneous claims for exemption from charges may have been made during 2004/2005. The extrapolation for 2004/2005 suggests that the errors could amount to £6.1 million. We have significant concerns over the accuracy of the extrapolations and the estimated error arrived at, but nevertheless accept that the level of patient exemption error could be significant and, as responsibility for all aspects of FHS income remains with Greater Glasgow NHS Board, it is appropriate that this is disclosed in the Statement on Internal Control. The CFS will carry out further risk assessments and investigations to inform future work in this area and the NHS Board will continue to work with the CFS to minimise the levels of erroneous exemption claims made.

- 4 The Audit Committee recommends therefore that the NHS Board should approve the attached Statement on Internal Control and that the Statement on Internal Control should be signed by the Chief Executive.**

Mrs E Smith
Chair, NHS Greater Glasgow Audit Committee
12 July 2005

APPENDIX 2

STATEMENT ON INTERNAL CONTROL – NHS GREATER GLASGOW

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the NHS Board'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.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the NHS Board'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 the principal risks to the achievement of the NHS Board's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and accords with guidance from Scottish Executive Health Department - Finance.

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The key elements of the system of internal control and review can be summarised as follows.

- Risk Management and internal control are considered by the NHS Board and the NHS Greater Glasgow Audit Committee and are incorporated into the corporate planning and decision making processes of the NHS Board. A committee structure has been established to ensure that all aspects of risk relating to the Board's activities are addressed and a Risk Management Strategy for NHS Greater Glasgow was approved by the NHS Board in March 2005.
- The NHS Board comprises 31 members. Twenty two are Non Executives Directors and nine are Executive Directors. The Chairs and Chief Executives of the operating Divisions are also members of the NHS Board. The NHS Board acts as a board of governance providing strategic leadership and direction across NHS Greater Glasgow in respect of strategy development, resource allocation, implementation of the Local Health Plan and performance management. The NHS Board normally meets every second month. There were 9 meetings in 2004/2005. In the months when a meeting is not scheduled, Performance Review Group meetings are held which all NHS Board Members are able to attend. A monthly NHS Board Seminar is held for Members to allow detailed discussion and briefing on developing strategic issues and policies. This gives Non Executive Directors the opportunity to shape the direction of such strategies and policies. The NHS Board receives the minutes of all meetings of the NHS Board's standing committees.
- The NHS Greater Glasgow Audit Committee ensures that within NHS Greater Glasgow audit mechanisms are in place, activities are within the law and regulations that govern the NHS in Scotland and an effective internal control system is maintained. The Audit Committee met six times during the year to discharge its responsibilities in respect of Glasgow wide issues, matters specific to the NHS Board and oversight of the divisional audit committees. The internal auditors submit regular reports to the Audit Committee which includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the systems of internal control within NHS Greater Glasgow together with recommendations for improvement. Divisional audit committees continued to meet to oversee the completion of the annual accounts process for 2004/2005 thereafter their role in the new organisational arrangements under single system working will be absorbed by the NHS Greater Glasgow Audit Committee. Options are currently being considered for the support required to provide the Audit Committee with the required assurance under the new governance arrangements.

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- The Performance Review Group (PRG) was established and has delegated responsibility with powers on behalf of 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 co-ordinated overview of performance across all domains of the Performance Assessment Framework. The PRG meets bi-monthly (and more frequently if required) and the Minutes of its meetings are reported to the NHS Board
- The Health and Clinical Governance Committee met 3 times last year and ensures that clinical governance mechanisms are in place and effective throughout NHS Greater Glasgow and that the principles and standards of clinical governance are applied to health improvement activities of the NHS Board. A structure for clinical governance under the new organisational arrangements has been agreed for implementation in 2005/2006.
- The Staff Governance Committee continued its responsibilities of ensuring that staff governance mechanisms were in place and effective throughout NHS Greater Glasgow, and to ensure that the principles and standards of the Staff Governance Standard were applied to all management practice within the operating divisions and NHS Board. The Committee met three times in 2004/2005 and in addition, the Remuneration Sub Committee met to consider the appraisal and remuneration arrangements of the Executive Directors within NHS Greater Glasgow and setting the corporate objectives. Divisional and NHS Board Remuneration Sub Groups continued to deal with the arrangements for executive pay in respect of senior staff.
- The Involving People Committee was established to ensure 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 for the first time on 10 November 2004 and on two further occasions during 2004/2005.
- A Risk Management Steering Group was established as a sub group of the Corporate Management Team. It is chaired by the Medical Director of the NHS Board and comprises the executive lead and risk adviser from each division. The group met for the first time in November 2004 and on four further occasions since. Action plans have been agreed by the Steering Group and a sub group comprising the risk advisers has responsibility for developing the implementation of these action plans. Under these action plans, a Risk Management Strategy was developed for NHS Greater Glasgow and this was approved by the NHS Board in March 2005. Also under the action plans, two further key tasks are being undertaken.

- 1 The implementation of the Risk Management Strategy and the harmonisation of risk management arrangements across NHS Greater Glasgow;

- 2 The development of a corporate risk register.

Progress against the action plans has been, and will continue to be reported to the Audit Committee. Arrangements for the management of risk remain in place at divisional/operational level.

- All bodies within NHS Greater Glasgow achieved the Level 1 Standards of Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). NHS Quality Improvement Scotland (NHS QIS) has been developing a set of Healthcare Governance Standards to replace the CNORIS standards. Pending finalisation of the NHS QIS standards, an interim peer review was undertaken by NHS QIS in respect of a number of NHS Scotland bodies including NHS Greater Glasgow. This review took the form of the submission of prescribed documentary evidence and a meeting between officers of the NHS Board and a review panel. The NHS Board's representatives at the review meeting included the Chair of the Audit Committee and the Chief Executive. NHS QIS issued their local and national reports on the

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outcome of the interim peer reviews. In the case of NHS Greater Glasgow, no significant issues were identified.

- A significant proportion of the transactions of the Greater Glasgow Primary Care Division are processed through third party agencies, primarily the Practitioner Services Division of National Services Scotland (PSD). The Audit Committee and management of the Division assess the controls over these functions by review of both the internal and external audit reports provided by these agencies. Previously, certain control deficiencies in the control processes of PSD have required disclosure in the Statement on Internal Control. However, recent audits of PSD have reported a significantly improved position and for 2004/2005, our review of these audits has provided sufficient assurance to conclude that there are no fundamental weaknesses in the control systems of third parties that would compromise the control environment within NHS Greater Glasgow.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within NHS Greater Glasgow who have responsibility for development and maintenance of the internal control framework and comments made by the external auditors in their management letters and other reports. While internal control systems operated satisfactorily, the following matter should be recorded.

In 2003/2004, the Statement on Internal Control disclosed that work carried out by the NHS Scotland Counter Fraud Services (CFS) highlighted that a potentially significant level of incorrect claims may have been made at the point of delivery for exemption from NHS prescription, dental and ophthalmic charges. Extrapolation of the sample results for NHS Greater Glasgow to give an indication of the potential level of Family Health Services (FHS) income error, suggested that the level of income lost in prescription, dental and ophthalmic charges in the year to 31 December 2003 could potentially have been £6 million. No assurances as to the likely accuracy of this estimate were provided however the matter was nevertheless disclosed in the Statement on Internal Control.

The CFS has again carried out this exercise and extrapolation of the sample results for the year to 31 December 2004 suggests that a similar level of erroneous claims for exemption from charges may have been made during 2004/2005. The extrapolation for 2004/2005 suggests that the errors could amount to £6.1 million. We have significant concerns over the accuracy of the extrapolations and the estimated error arrived at, but nevertheless accept that the level of patient exemption error could be significant and, as responsibility for all aspects of FHS income remains with Greater Glasgow NHS Board, it is appropriate that this is disclosed in the Statement on Internal Control. The CFS will carry out further risk assessments and investigations to inform future work in this area and the NHS Board will continue to work with the CFS to minimise the levels of erroneous exemption claims made.

Signed

Date

Chief Executive and Accountable Officer