

AUDIT COMMITTEE: 12 JULY 2005

A (M) 05/04
Minutes: 40 –50

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, 12 July 2005 at 9.30 a.m.**

PRESENT

Mrs E Smith (Chair)
Cllr D Collins
Mr P Hamilton
Mrs A Stewart MBE

IN ATTENDANCE

Mr D Griffin	Acting Director of Finance (From Minute 42)
Mr J C Hamilton	Head of Board Administration (From Minute 42)
Mr J M Hamilton	Assistant Director of Finance (From Minute 42)
Mr A Lindsay	Head of Control & Support Systems (From Minute 42)
Ms E McLeish	Corporate Reporting Manager (From Minute 42)
Mr C D Revie	PricewaterhouseCoopers (Excluding Minute 41)
Mr M White	PricewaterhouseCoopers (Excluding Minute 41)
Mr C Gibson	Deloitte (Excluding Minute 40)
Mr P McGinty	Deloitte (Excluding Minute 40)

ACTION BY

40 PRIVATE MEETING WITH 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.

41 PRIVATE MEETING WITH INTERNAL AUDITORS

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42 APOLOGIES

Apologies were intimated on behalf of Mr J Bannon, Dr R Groden and Cllr J Handbode.

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ACTION BY**43 MINUTES**

On the motion of Mrs Smith, seconded by Mr P Hamilton, the Minutes of the meeting on 13 June 2005 [A (M) 05/03] were noted as a correct record and signed by the Convener.

44 MATTERS ARISING FROM THE MINUTES

In respect of Minute 32, Mr Revie, PricewaterhouseCoopers, reported that the external audit report on Key Business Challenges would be followed up as part of the work on the report by the external auditors on the Priorities and Risks Framework.

In respect of Minute 34, the Head of Board Administration reported that the protocol for the issue of papers for meetings of the NHS Board and its standing committees would be considered at a Board Members' Seminar to discuss Committee and governance arrangements.

In respect of Minute 35, the Convener reported that work was in progress in respect of the sub structures required to support the Audit Committee under the new governance arrangements and the matter would be considered by Members at a subsequent meeting.

45 INTERNAL AUDIT ANNUAL REPORT 2004/2005

A report of PricewaterhouseCoopers (Audit Paper No 05/23) was presented describing the internal audit work undertaken across NHS Greater Glasgow since the last meeting of the Audit Committee, summarising the work undertaken for 2004/2005 as a whole and providing the Audit Committee with an Annual Internal Audit Statement.

Mr Gibson, Deloitte, described the key points contained in the report including the following matters.

1. All Divisional Audit Committees had met on at least three occasions throughout 2004/2005. Structured agendas were in place for meetings but it was noted that several had been attended by only one Non Executive Member.
2. Compliance with the national specifications on cleaning and infection control had been reviewed. Significant work had been undertaken to achieve compliance, particularly in relation to infection control. While full compliance had not yet been achieved, the areas of non compliance were relatively minor and related to documentation and ongoing training and development. In response to questions from Mrs Stewart and the Acting Director of Finance, Mr McGinty, Deloitte, explained that progress varied between divisions and Mr Gibson confirmed that this matter would be considered as part of the follow up programme once the final response from management was received. Responding to a question from Cllr Collins, Mr McGinty explained the potential impact of new equipment on the infection control regime and described how divisional management had worked with purchasing teams on this issue.

Deloitte

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3. A review of GP contract management found that adequate management controls were in place over payments to GPs. In response to a question from Mrs Stewart, the Acting Director of Finance commented that a programme of reasonableness checks was in place but still in the developmental stage. A formal review would be undertaken of the checks carried out and a programme developed to be followed and adapted in future years.
4. Work on a number of IT subjects had been carried out. In particular, the Primary Care Division had taken responsibility for the provision of IT services to GPs in the Greater Glasgow area and a review of the IT system and network disaster recovery planning for GP practices had identified a number of important opportunities to improve the plan and its underlying procedures. In response to questions from the Convener and Mr P Hamilton, the Acting Director of Finance explained that the issue of continued support to GPs in this matter would be considered as the organisational structures were developed to support the new governance arrangements.
5. Follow up audits had been carried out to establish the progress made in implementing agreed audit recommendations. Steady progress had been made with 52% of recommendations being fully implemented and a further 38% either partially implemented or with work on-going towards implementation. Responding to a question from the Convener, Mr Gibson confirmed that none of the recommendations within the 10% which had not been implemented related to a matter of significance.

**Acting Director of
Finance**

Mr Gibson drew Members' attention to the indicative audit plan for 2005/2006 and reported that work was already underway in respect of this plan. In addition, Mr McGinty explained that the internal audit service had been restructured to allow teams to be organised on a competency rather than geographical basis.

Mr Gibson concluded by highlighting the Annual Internal Audit Summary contained within the report and which stated:-

"On the basis of work undertaken in the year ended 31 March 2005 we consider that the Board generally has an adequate framework of controls over the systems we examined as summarised on page 13 (subject to 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 to the priority one recommendations highlighted on page 15."

NOTED**46 STATEMENT ON INTERNAL CONTROL 2004/2005**

A report of the Head of Control and Support Systems (Audit Paper No 05/24) was presented reporting on the system of internal control within NHS Greater Glasgow including the annual fraud report. Based on this report, a draft statement of assurance had been drafted for submission

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to the NHS Board on behalf of the Audit Committee together with a draft Statement on Internal Control for NHS Greater Glasgow. Members were asked to approve the report on the system of internal control and the submission of the draft Statement of Assurance and Statement on Internal Control to the NHS Board.

The Head of Control and Support Systems explained that the Scottish Executive required Chief Executives of NHS Boards as Accountable Officers sign a Statement on Internal Control (SIC) as part of the annual accounts process. The format of the SIC is prescribed by the Scottish Executive; it must consider all elements of internal control, not merely those relating to finance and if any aspect of the system of internal control is found to be unsatisfactory, this must be disclosed in the SIC. Guidance issued by the Scottish Executive requires NHS Boards to review their systems of internal control having regard to the assurances provided by the Audit Committee and other standing committees. This responsibility is reflected in the Remit of the Audit Committee.

The Head of Control and Support Systems commented that previously each Division and the NHS Board had produced a separate SIC. For 2004/2005, a single SIC was required for NHS Greater Glasgow as a whole. To inform the preparation of the pan Glasgow SIC, the following process had been followed.

During 2004/2005, operating divisions continued to function as separate business units within the context of single system working. Each Divisional Audit Committee had therefore reviewed the system of internal control within the division. Based on this review, each Divisional Audit Committee had provided a Statement of Assurance to the Divisional Management Team which based on this Statement of Assurance, had authorised the Divisional Chief Executive to sign a SIC on behalf of the division. The SIC produced by each of the Divisions were included as Appendices 1 – 4 of the report.

The only issue to emerge from the reviews of the divisional systems internal control which merited disclosure in the pan Glasgow SIC related to the issue of potential inappropriate claims for exemption from charges for NHS prescription, dental and ophthalmic charges which was described in the SIC for the Primary Care Division. This now required to be disclosed in the NHS Greater Glasgow SIC.

Under the NHS Board's Fraud and Corruption Response Plan, an annual report is required to be made to the Audit Committee on the level of fraud (suspected and detected) together with the arrangements for its prevention and detection. This report was incorporated at paragraph 6 of the review of the NHS Board's internal control framework (Appendix 5 of the report) and showed that no cases of fraud had been reported or detected within the NHS Board. In response to comments by Mr Revie, PricewaterhouseCoopers, the Head of Control and Support Systems undertook to

- Amend the list of external audit reports at paragraph 4.1 to include those reports relating to 2004/2005;
- Amend the annual fraud report to refer additionally to the number of frauds reported for NHS Greater Glasgow.

**Head of Control &
Support Systems**

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The Head of Control and Support Systems concluded that the review of the NHS Board's system of internal control identified no matters that required to be disclosed in the SIC. This together with the SIC provided by the divisions would allow the Audit Committee to provide a Statement of Assurance to the NHS Board on the system of internal control within NHS Greater Glasgow. A draft Statement of Assurance was included in the report at Appendix 7 together with a draft SIC for NHS Greater Glasgow.

DECIDED:

- 1) That subject to the agreed amendments, the report on the system of internal control within NHS Greater Glasgow be approved (including the Annual Fraud Report amended as agreed) in respect of the NHS Board;
- 2) That the Statement of Assurance by the Audit Committee be approved and submitted to the NHS Board at its meeting on 26 July 2005;
- 3) That Statement on Internal Control in respect of NHS Greater Glasgow be approved for submission to the NHS Board at its meeting on 26 July 2005 with a recommendations that the Chief Executive should sign the Statement on Internal Control.

**Head of Control &
Support Systems**

**Head of Control &
Support Systems**

**47 EXTERNAL AUDIT: PRESENTATION TO AUDIT COMMITTEE-
2004/2005 AUDIT**

A presentation was made by PricewaterhouseCoopers (Audit Paper No 05/25) summarising the key issues which would feature in the Final Report to Board Members. Mr Revie, PricewaterhouseCoopers, explained that the Final Report to Board Members would be included in the papers issued in respect of the meeting of the NHS Board on 26 July 2006. It was agreed to accept Mr Revie's suggestion that the draft of the Final Report be issued to Members of the Audit Committee for comment in advance of its distribution within the NHS Board papers. Mr Revie then described the following key issues which would feature in the Final Report.

**Pricewaterhouse
Coopers**

Audit Process

Reflecting the move to single-system working, divisional accounts templates had been used to produce divisional accounts. These accounts had been audited and presentations made to Divisional Audit Committees but separate audit opinions were not required. The divisional accounts were consolidated at NHS Board level and it was on the consolidated accounts that the audit opinion was formed. The overall quality of the template accounts and working papers was of a reasonable standard and the consolidation process had worked well and in a transparent manner. Mr Revie expressed his gratitude to the NHS Greater Glasgow staff involved in the audit process.

Financial Position 2004/2005

Mr Revie commented on the divisional out-turns and noted that the divisions had performed better than expected. The overall position with NHS Greater Glasgow showed a likely surplus of £12m and Mr

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Revie described the factors that had contributed to this being achieved. From a projected deficit of £4m at June 2004. Mr Revie reminded Members of some of the financial pressure arising from increased employers pension costs, Agenda for Change, Quality and Outcomes Framework and the new consultants' contract. In response to a question from the Convener, the Acting Director of Finance explained that the amount of £11.4 in respect of funding allocations not fully committed or utilised in 2004/2005 was within the limit for carry forward and was available for spend in 2005/2006. Responding to a question from Mr P Hamilton, the Acting Director of Finance explained the process for negotiating and agreeing the level of income received from other West of Scotland NHS Boards. The Acting Director of Finance commented that the recovery plan was sustainable and that cost containment measures could be controlled.

Projected Financial Position 2005/2006

Mr Revie then described the projected financial position for 2005/2006 and some of the underlying assumptions. The projected deficit of £10.4m had been reported to the NHS Board and the Scottish Executive Health Department and Mr Revie noted the materiality of this amount in the context of the overall expenditure of NHS Greater Glasgow. The Acting Director of Finance explained the critical issues underlying the projected position and emphasised that the projected deficit was not significant in terms of the Board's overall expenditure. Discussions would continue with the Scottish Executive Health Department on ways to address the projected deficit.

Accounting Issues and Adjustments

Mr White, PricewaterhouseCoopers, then spoke on main accounting issues and adjustments. These included the following matters.

- 1) A group audit based approach had been adopted and issues arising would be reported in management letters which would lead to an action plan which would be reported to the Audit Committee.
- 2) A revaluation exercise in respect of land and buildings had taken place across NHS Greater Glasgow.
- 3) One public sector debtor had been slow to make payments causing cash flow problems to the Board.
- 4) A number of issues had emerged during the implementation of the new "Cedar" financial system and these had now been resolved.
- 5) In respect of medical and clinical negligence claims, the level of in-year settlements had increased while the provision and contingent liability levels were broadly similar to the previous year.

Internal Control

Mr White then described key internal control issues.

- 1) A Risk Management Steering Group had been established and a pan Glasgow Risk Management Strategy had been developed. Risk management arrangements continued to operate at divisional

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level in addition to the developing pan Glasgow arrangements.

- 2) The external auditors did not disagree with the disclosures contained in the Statement on Internal Control. Mr Revie explained that the external auditors were still considering the audit opinion in the respect of the issue of the potential level of incorrect claims for exemption from NHS prescription, dental and ophthalmic charges.
- 3) There had been good progress in implementing the recommendations arising from the 2003/2004 audit.
- 4) Weaknesses had been noted in the governance and monitoring arrangements of a capital scheme at divisional level. Management had reported that improved controls had been implemented to address these weaknesses.

Integration of NHS Argyll and Clyde

Mr Revie noted that a public consultation exercise was due to commence shortly on the possible transfer of NHS Argyll and Clyde to NHS Greater Glasgow and NHS Highland. The NHS Board should at the appropriate moment begin to consider the key issues surrounding any potential transfer.

Acute Services Programme

Mr Revie commented that during 2004/2005, the Acute Services Programme had principally focussed on the ACADs. PricewaterhouseCoopers were currently reviewing certain key documents and would report to the Performance Review Group in August 2005.

Single System Working

Mr White summarised the development of the new organisational structure and highlighting that the Acute Services Division will be managed by eight Directorates each with its own Director. Other key strands of single system working included arrangements for Public Health Promotion, Children's Services, Mental Health and Community Health Partnerships

Mr Revie concluded by reminding Members of the audit reports which they had received during 2004/2005. These included

- Priorities and Risk Framework Report;
- Report on Meetings with Non Executive Directors;
- Staff Governance Follow Up Report.

In addition a review was on going of the effectiveness of financial reporting formats within NHS Greater Glasgow.

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In response to a question from Mr Gibson, Deloitte, Mr Revie explained that the audit opinion would be included in the Final Report to Board Members which would be submitted to the meeting of the NHS Board on 26 July 2005.

NOTED**48 EXTERNAL AUDIT REPORT: PRIORITIES AND RISKS FRAMEWORK – ACTION PLAN**

A report of the Head of Board Administration (Audit Paper No 05/26) was presented asking Members to note the action plan which had been completed by management in response to the report by the external auditors on the Priorities and Risks Framework. The Head of Board Administration explained that at the meeting of the Committee on 13 June 2005, a report had been presented by the NHS Board's external auditors, PricewaterhouseCoopers, on the Priorities and Risks Framework. It had been agreed that the action plan contained within the report be completed by the Corporate Management Team (CMT) and submitted to the Audit Committee (Minute 33 refers). Having been considered by the CMT, the action plan had been completed.

NOTED**49 STATEMENT OF ACCOUNTS 2004/2005**

A report of the Acting Director of Finance (Audit Paper No 05/27) was presented asking the Committee to consider the Statement of Accounts for the financial year ended 31 March 2005 and if satisfied, to recommend their adoption by the NHS Board and submission to the Scottish Executive.

In response to comments by Mrs Stewart, the Assistant Director of Finance undertook to address an number of presentational points in the Directors Report within the Accounts and in Note 2 (b).

**Assistant Director
of Finance**

DECIDED:

That the Statement of Accounts for the financial year ended 31 March 2005 be submitted to the NHS Board at its meeting on 26 July 2005 and recommended for adoption by the NHS Board and thereafter submission to the Scottish Executive.

**Acting Director of
Finance**

49 DATE OF NEXT MEETING

An additional meeting be scheduled for Tuesday, 13 September 2005 at 9.30 a.m. to discuss the arrangements to support the internal control and assurance framework and Audit Committee in the new organisation.

The next meeting under the agreed programme of meetings remains scheduled for Tuesday, 25 October 2005 at 9.30 p.m.

The meeting ended at 12.40 p.m.