

**Convener of the Audit Committee**

**STATEMENT ON INTERNAL CONTROL**  
**- NHS GREATER GLASGOW 2005/2006**

**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.

**Background:**

As Accountable Officers, Chief Executives of NHS Boards have responsibility for maintaining a sound system of internal control within their organisation. In March 2002, the Scottish Executive issued HDL (2002) 11 – “Corporate Governance: Statement on Internal Control” which requires Chief Executives 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 the introduction of the SIC 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 of the NHS Board whose remit includes aspects of the internal control regime. The Remit of the NHS Greater Glasgow and Clyde Audit Committee incorporates this responsibility when it states that the Audit Committee shall be responsible for the review of the NHS Board’s system of internal control and making recommendations regarding the signing of the SIC by the Chief Executive. In addition, the revised Audit Committee Handbook issued by the Scottish Executive requires Audit Committees to evaluate the internal control environment and provide a statement of assurance to the NHS Board.

The format of the SIC is specified in Scottish Public Finance Manual issued by Scottish Executive. The draft SIC (Appendix 2) has been prepared to comply with this guidance.

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 06/27), they state that their opinion on the disclosures contained within the SIC is unqualified.

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

At the meeting on 20 June 2006, 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.

1. The attached Statement of Assurance to the NHS Board on the system of internal control within NHS Greater Glasgow (Appendix 1);
2. The Statement on Internal Control for NHS Greater Glasgow (This forms part of the Statement of Accounts – Board Paper No 06/28 – but for ease of reference a copy is reproduced here at Appendix 2).

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**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 the Statement on Internal Control, is required to describe the effectiveness of the system of internal control and to declare any significant aspects where this system is unsatisfactory.

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 system of internal control within NHS Greater Glasgow. 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 which the Chief Executive is required to sign.

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 2005/2006, including matters considered by the Divisional Audit Committees and Audit Support Groups;
- 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;
- Assurance statements by the Clinical Governance Committee and Risk Management Steering Group;
- Reports issued by the external auditors arising from their audit of the NHS Board's annual accounts;
- Private discussions with both the internal and external auditors

A key element of the review was the Internal Audit Annual Report 2005/2006 by the internal auditors, Deloitte, which included the independent opinion of the internal auditors on the systems of internal control within NHS Greater Glasgow. In the Internal Audit Annual Report for 2005/2006, this opinion stated

*On the basis of work undertaken in the year ended 31 March 2006 the internal auditors consider that NHS Greater Glasgow generally has 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.*

**Conclusion**

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

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.
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. 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.

It is however appropriate that the Statement on Internal Control should refer to the issue arising from the work of NHS Scotland Counter fraud Services in respect of the potential level of incorrect claims at the point of delivery for exemption from NHS prescription, dental and ophthalmic charges.

The Audit Committee recommends therefore that the NHS Board should approve the Statement on Internal Control paper 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  
20 June 2006

## **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.

I am supported in discharging these responsibilities by a sound corporate and management structure, underpinned by a NHS Board consisting of both executive and non executive members. Risk management and internal control are considered by the NHS Board and the Audit Committee and are incorporated into the corporate planning and decision making processes. A Risk Management Strategy for NHS Greater Glasgow was in place throughout the year.

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 2006 and up to the date of approval of the annual report and accounts and accords with guidance from Scottish Executive Finance.

### **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.

NHS Greater Glasgow aims to provide high quality and safe services to the public it serves in an environment which is also safe for the staff it employs or contracts with to provide services. In fulfilling this aim, NHS Greater Glasgow has a robust and effective Strategy for the management of risk.

The strategy is predicated on the belief that Risk Management is:

- An important activity to ensure the health / well being of patients, staff and visitors.
- An inclusive and integrative process covering all risks, set against a common set of principles.
- Best implemented where good practice is acknowledged and built upon.
- A major corporate responsibility requiring strong leadership and regular review.

We believe that the maintenance of high standards of health, safety and welfare within a risk management framework is fundamental to the provision of high standards of health care. Our risk management strategy affirms NHS Greater Glasgow's commitment to improve its capability to manage risk. By tackling risk in a systematic way we can drive continuous improvement and have a positive impact on the quality of care, wellbeing of our staff and the efficiency of NHS Greater Glasgow. This strategy also formalises risk management responsibilities and sets out how the public may be assured that our risks are managed effectively and, accordingly, represents a major element of NHS Greater Glasgow's healthcare governance arrangements.

NHS Greater Glasgow recognises the value of the risk management arrangements which operated in recent years within each of the former Trusts and Divisions. Building on this existing framework, NHS Greater Glasgow 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. The RMSG operates 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. Specifically the RMSG has:

- Overseen the development of a single system risk management strategy, which has been endorsed by the Audit Committee and received Board approval. The strategy is currently under review to reflect the change in organisational arrangements following the formation of NHS Greater Glasgow and Clyde.
- Developed a plan for the implementation of the strategy across all operating units and corporate functions within NHS Greater Glasgow.
- Developed proposals for the implementation of a single methodology for identifying, assessing and reporting on clinical and non-clinical risk.
- Developed proposals to update and refresh the corporate risk register.
- During the implementation of the single system arrangements the members of the Group have continued to operate the arrangements which existed within the former NHS Trusts and latterly divisions of the NHS Board. These arrangements had previously been reported as satisfactory within the individual Statements on Internal Control and had all been accredited to CNORIS Level I standard.

The Group membership, its remit and working relationship are currently being reviewed by the Chief Executive and the Designated Executive leads to ensure that leadership and accountability arrangements fit with a new single system structure and also to reflect the incorporation of the functions transferred from the former Argyll & Clyde Health Board.

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 2006, and up to the signing of the accounts, it has:

- Adapted its governance arrangements to support a new organisational structure, implemented from 1 April 2006, which saw the establishment of an Acute Division, a Mental Health Partnership, CHCPs and CHPs.
- Reviewed and revised the remits and membership of the standing committees of the NHS Board to support the transition to single system working under the new organisational arrangements. Revised remits were agreed by the NHS Board and referred to the relevant standing committee for discussion before approval. Membership of standing committees was reviewed. The revised remits and membership of the standing committees were effective from 1 January 2006, allowing for a period of “shadow” operation prior to the implementation of the new organisational structure with effect from 1 April 2006.
- Created two Audit Support Groups (ASGs) to replace the previous divisional audit committees. Each ASG covers a specific area of operations and reviews all audit matters ensuring that all issues are actioned. This allows the Audit Committee to concentrate on strategic and Glasgow wide issues. The Audit Committee monitors the operation of the ASGs.
- Begun the integration of the “Clyde” area of the former Argyll and Clyde Health Board. A Project Board was established during 2005/2006, to oversee the transition process, supported by a Project Team and Six specialist sub groups set up to cover key areas of work - Finance, Human Resources, Assets, Community Care, Governance and Primary Care.

### **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, Health and 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 following committees:

- The NHS Board, which comprises Executive and Non-Executive Directors, 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 meets bi-monthly. Regular NHS Board Seminars are held for Members to allow detailed discussion on emerging issues. This gives Non Executive Directors additional opportunity to shape the direction of strategies and policies. The NHS Board receives the minutes of all meetings of the NHS Board's standing committees.
- An Audit Committee responsible for ensuring that within NHS Greater Glasgow: appropriate audit mechanisms are in place; activities are conducted within the law and regulations that govern the NHS in Scotland; and an effective internal control system is maintained. The Audit Committee meets bi-monthly and considers regular reports, and recommendations for improvement, from both the internal and external auditors. The Audit Committee also monitored the work of the former Divisional Audit Committees until December 2005 and monitors the work of the Audit Support Groups established in January 2006.
- A 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 co-ordinated overview of performance across all domains of the Performance Assessment Framework. The PRG meets bi-monthly.
- A Health and Clinical Governance Committee (HCGC), which met three times during the year, ensured that clinical governance mechanisms were in place and operated effectively throughout NHS Greater Glasgow and that the principles and standards of clinical governance were applied to health improvement activities of the NHS Board. A Clinical Governance Implementation Group was established in 2006, under the leadership of the Board Medical Director, to support the HCGC and to direct and monitor progress of the local programme for clinical governance. The Group assumed the clinical governance responsibilities of the former divisional management arrangements and met twice during 2006. The minutes of its meetings are reported to the HCGC.
- A Staff Governance Committee that ensured staff governance mechanisms were in place and effective throughout NHS Greater Glasgow and ensured 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 2005/2006. In addition, the Remuneration Sub Committee met to consider the appraisal and remuneration arrangements of the Executive Directors within NHS Greater Glasgow and set corporate objectives. Divisional and NHS Board Remuneration Sub Groups dealt with the previous year's appraisal and performance.
- An Involving People Committee that ensured 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 six occasions during 2005/2006.
- A Risk Management Steering Group (as detailed previously) that met three times during 2005/2006.

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, and being implemented, to ensure that they are addressed. Arising out of this review, the following issue requires to be disclosed.

In 2004/2005, the Statement on Internal Control disclosed that work carried out by NHS Scotland Counter Fraud Service (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 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 2004 could potentially amount to £6.1 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 2005 suggests that the level of erroneous claims made during 2005/2006 could amount to £7.2 million. This could indicate an increasing trend in the level of fraud. However this should be taken in the context that over the 3 years that this information has been made available there has been significant positive and negative fluctuations within the individual extrapolations of pharmacy, dental and ophthalmic fraud levels. We therefore have significant concerns over the validity and accuracy of the extrapolations and the estimated error arrived at. Nevertheless, we accept that the level of patient exemption error could be significant and, as responsibility for all aspects of FHS income remains with the 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 and Contractors to minimise the levels of erroneous exemption claims made.

T A Divers  
Chief Executive and Accountable Officer  
27 June 2006