

AUDIT COMMITTEE: 14 MARCH 2006

A (M) 06/02
Minutes: 10 – 18

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, 14 March 2006 at 9.30 a.m.**

PRESENT

Mrs E Smith (Chair)
Cllr R Duncan
Dr R Groden
Mr P Hamilton
Cllr J Handibode
Mrs S Kuenssberg CBE
Mr A O Robertson OBE
Mr D Sime
Mrs A Stewart MBE

IN ATTENDANCE

Mr D Griffin	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
Mr P Ramsay	Financial Services Manager (To Minute 12)
Mr C D Revie	PricewaterhouseCoopers (To Minute 16)
Mr M White	PricewaterhouseCoopers (To Minute 16)
Mr C Gibson	Deloitte (To Minute 16)
Mr P McGinty	Deloitte (To Minute 16)

ACTION BY

10 MINUTES

On the motion of Mrs Smith, seconded by Mr P Hamilton, the Minutes of the meeting on 31 January 2006 [A (M) 06/01] were noted as a correct record and signed by the Convener.

11 AUDIT SUPPORT GROUPS

11(a) CORPORATE AND PARTNERSHIPS: MINUTES OF MEETING ON 26 JANUARY 2006

In response to a question from Mrs Stewart, the Director of Finance explained that it would be the responsibility of the Chairman of each Audit Support Group to decide those audit reports and issues to be presented in full to the Audit Committee. The attendance of internal auditors and external auditors at meetings of the Audit Support Groups

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ACTION BY

and the presentation of the Minutes of the Audit Support Group Meetings to the Audit Committee would demonstrate the openness of this process and in addition, the internal and external auditors could bring matters directly to the Audit Committee.

NOTED

11 (b) CORPORATE AND PARTNERSHIPS: MINUTES OF MEETING ON 22 FEBRUARY 2006

NOTED

11(c) ACUTE: MINUTES OF MEETING ON 24 JANUARY 2006

NOTED

11 (d) ACUTE: MINUTES OF MEETING ON 14 FEBRUARY 2006

In response to a question from Mr P Hamilton, the Head of Control and Support Systems explained that under the support arrangements approved by the Audit Committee (Audit Paper No 05/34 refers), exceptions to the tendering process were to be reported to the Audit Support Groups with significant issues being referred to the Audit Committee. It was agreed that the Minutes of meetings of the Audit Support Groups should show sufficient detail to provide assurance to the Audit Committee that the process for exceptions to tender continued to be effective.

**Head of Control &
Support Systems**

NOTED

11(f) STATEMENT OF ASSURANCE

A report of the Chairman of the Audit Support Group – Corporate and Partnership and the Chairman of the Audit Support Group – Acute (Audit Paper No 06/04) was presented asking Members to note a statement of assurance on the action taken by the Audit Support Groups (ASGs) to monitor the implementation of internal audit and external audit recommendations.

As Chairman of the ASG – Corporate and Partnerships, the Director of Finance – Corporate and Partnerships described the process followed to develop a Matrix of External Audit Recommendations. On completion of the current round of follow up reviews by internal audit, an equivalent Matrix of Internal Audit Recommendations would be updated. The ASGs would monitor implementation of recommendations and any significant matters arising would be reported to the Audit Committee. Mr Revie noted that the Matrices included action plans which gave details of actions taken, responsibility for action and deadlines for action.

NOTED

12 INTERNAL AUDIT

12(a) INTERNAL AUDIT PROGRESS REPORT

A report of Deloitte (Audit Paper No 06/05) was presented asking Members to note the progress in the period to March 2006 in respect of the internal audit programmes for NHS Greater Glasgow. Mr Gibson (Deloitte) described overall progress in respect of the internal audit plan. A number of reports had been issued to management for responses but these responses were not overdue. A programme of follow up work was being undertaken and as reported under Audit Paper 06/04, this would inform the development of a Matrix of Internal Audit Recommendations. To this end, Mr Gibson explained that each recommendation being followed up had been allocated to the appropriate ASG for future monitoring.

Mr Gibson reported that the only "red flag" issue related to the audit of Operational Financial Services (OFS). Fieldwork had originally been carried out in November 2005 and the initial findings included a number of significant issues with five priority one recommendations. The report had been considered by the ASG – Corporate and Partnership and the fact that matters were now being reported to the Audit Committee with confirmation of progress made demonstrated that the ASG process worked well.

Mr Gibson explained that to ensure the Audit Committee received the most up to date picture, the internal auditors had carried out a follow up visit to OFS in the week prior to the meeting, Mr Gibson reported on the status on each of the five most significant areas. These were

1. Bank reconciliations;
2. Balance sheet reconciliations;
3. Supplier invoice processing;
4. Authorised signatory lists;
5. Credit control and bad debt procedures.

Mr Gibson noted that significant progress had been made. It was agreed that discussion of detailed matters arising from the internal audit report on OFS should take place during the next agenda item, the presentation by the Financial Services Manager.

NOTED

12 (b) PRESENTATION BY THE FINANCIAL SERVICES MANAGER

The Convener welcomed the Financial Services Manager to the Meeting. The Financial Services Manager described the background to and timescale of the establishment of Operational Financial Services (OFS). The project commenced in summer of 2005 and brought together key financial functions including financial accounting, management accounting information and accounts payable. The Financial Services Manager was supported by two Assistant Managers and an establishment of 100 staff. The creation of OFS had presented

challenges in a number of areas:

- Integrating divisional financial ledgers into a single NHS Greater Glasgow ledger;
- Integrating and retaining existing staff;
- Recruiting and training new staff;
- Harmonising working and management control environments;
- Retaining and using local knowledge.

The Financial Services Manager reported on the action taken in respect of the key areas of risk and control identified by the internal auditors and described the current position.

1. Bank account reconciliations

OFS had inherited 29 bank accounts and their operation and control was a complex task. As at 14 March 2006, 24 accounts had been reconciled and the remaining 5 would be complete by 31 March 2006. A rationalisation plan was in place to reduce the number of accounts. In response to questions from Mr Robertson and Mrs Stewart, the Financial Services Manager explained that automatic reconciliations via CedAr financial system were being pursued and that while the Office of the Paymaster General handled the bulk of the NHS Board's transactions, local banking arrangements were still required to deal with cash transactions. Mr Revie (PricewaterhouseCoopers) noted that all bank reconciliations had been carried out and the outstanding work was in respect of clarification of the reconciling items. Mr White (PricewaterhouseCoopers) added that many of the reconciling items related to inter divisional account transfers.

2. Balance sheet account reconciliations

A formal and structured process had been implemented to centralise and monitor control accounts. A senior finance manager had been seconded to assist complete this task. All major accounts had been reconciled with the remainder to be completed by 31 March 2006. The Director of Finance commented that the backlog was being systematically addressed and once up to date, the staff structure would be reviewed to reflect lessons learned.

3. Payments to suppliers

The volume of transactions to be processed together with the introduction of document scanning and the re-organisation of the procurement function contributed to the difficulties faced. More efficient working practices had been introduced and the effect of these was demonstrated by the improved payment statistics. In response to questions from Mr Sime and Mrs Stewart, the Financial Services Manager explained that he planned to work with the Acting Head of Procurement to communicate with key suppliers to develop understanding of the issues for both parties. Replying to a question from Mr Robertson, the Financial Services Manager explained that the National Shared Support Services Project was considering the issue of electronic invoices but at present most suppliers were not ready for this development.

4. Authorised signatory lists

Divisional lists were not up to date and this factor was compounded by the movement of staff and changes in roles. Existing lists had been used and updated on an ad hoc basis until September 2005. Plans were in place to produce an updated list of authorised signatories to reflect the new organisation from April 2006.

5. Credit control – Management of bad debts

The main challenges in this context had been staff absence and the reconciliation of inter-divisional balances. The department was now fully staffed and the credit control function was now fully operational. This was reflected in the improved level and profile of debts.

6. Fixed Assets Register

Problems with compatibility with the CedAr financial system had been overcome. A single NHS Greater Glasgow Asset Register had been created on CedAr in February 2006 and this allowed the performance of monthly calculation of capital charge. Furthermore, a Glasgow wide asset verification action plan was being implemented.

7. Control of suspense accounts

There had been a reduction in unallocated cash.

8. Management reporting

CedAr financial system now generated automatic reports in the required formats avoiding manual extraction of data.

9. Production of annual accounts

This would be the first time the annual accounts would be prepared from a single ledger and an additional challenge was presented by the revised timescale of 30 June 2006 for conclusion of the accounts. Experienced staff had been seconded to oversee the annual accounts process and a detailed timetable had been agreed with external audit.

The Financial Services Manager concluded that while challenges remained, a lot had been achieved; an effective OFS team was in place allowing OFS to operate well as a key support function. The Director of Finance added that on completion of the annual accounts process, the situation would be reviewed to identify any lessons which could be learned from the establishment and operation of OFS.

Members expressed satisfaction at the progress made and took comfort from the report by the Financial Services Manager. The Convener thanked the Financial Services Manager for his useful and informative presentation.

13 BRIEFING ON REVIEW OF ASSUMPTIONS UNDERPINNING THE REVIEW OF ACCIDENT AND EMERGENCY SERVICES

A report of PricewaterhouseCoopers (Audit Paper No 06/06) was presented asking Members to note the results of the review of the assumptions underpinning the review of Accident and Emergency (A & E) Services. Mr Revie (PricewaterhouseCoopers) reminded Members that the NHS Board had agreed the pattern of future A & E Services in June 2002. The Minister for Health and Community Services ratified the strategy but stated that it would be right that the assumptions that underpinned the decision should be looked at again when any change was closer. In response to the Minister's request, the NHS Board undertook a number of exercises in 2004/2005 to assess the current applicability of the assumptions underpinning the June 2002 decision. The NHS Board had appointed PricewaterhouseCoopers to conduct a review to ensure the Minister's request was undertaken.

This review focussed on the arrangements for involving the stakeholders identified by the Minister in reviewing the 2002 assumptions and on the process undertaken by the NHS Board to review these assumptions. Based on the work done, the review by PricewaterhouseCoopers stated that it was reasonable to conclude that the NHS Board has taken reasonable steps to ensure that the assumptions underpinning the June 2002 decisions remain valid. Mr Revie also noted the importance of a robust communications plan to support the roll out of the revised arrangements.

NOTED

14 EXTERNAL AUDIT CURRENT STATUS

A report of PricewaterhouseCoopers (Audit Paper No 06/07) was presented asking Members to note the overall reporting status. Mr White (PricewaterhouseCoopers) drew Members' attention to the diagram on page 4 of the report which set out the planned audit visits and other audit works, the agreed outputs and the status of these outputs. Mr White summarised the key elements of progress of the 2005/2006 audit including the following matters.

1. The Internal Controls Report would deal with control issues arising from audit work which would focus on
 - Assessment of the governance and control environment;
 - Analysis and testing of systems of internal financial control;
 - Information systems and IT management – review of general controls.
2. Mr Revie (PricewaterhouseCoopers) reminded Members of the purposes of the Efficient Government initiative and reported that Audit Scotland required all auditors to complete, together with their audited bodies, an "Efficient Government Diagnostic" which is a self assessment tool covering the key themes of the Efficient Government Agenda. Arrangements were in place to complete this self assessment and the key findings would be reported to the Audit Committee in May 2006.

**Pricewaterhouse
Coopers**

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3. Mr Revie commented on the assignments undertaken by the external auditors in respect of the Acute Services Programme, Accident and Emergency Services Reconfiguration and Bed Modelling. In respect of bed modelling, Mr Revie referred to the complexity of the bed model and explained that a report would be presented to the Audit Committee in May 2006 when the Director of Corporate Planning and Policy would be invited to attend.
4. Mr White commented on the results of the follow up review of previous external audit recommendations. Progress had been made in respect of the following higher business risk areas
 - Financial reporting;
 - Staff governance;
 - Authorised signatory lists;
 - Adults with Incapacity Act;
 - CHCP governance;
 - Risk Management.
5. In respect of pay modernisation, Mr Revie reported that good progress had been made locally. With regard to NHS Argyll and Clyde, the transition was taking place in a controlled manner with the project team recognising the risks.

**Pricewaterhouse
Coopers
Director of
Corporate Planning
& Policy**

NOTED

15 REVIEW OF STANDING FINANCIAL INSTRUCTIONS

A report of the Head of Control and Support Systems (Audit Paper No 06/08) was presented asking Members to note progress towards updating Standing Financial Instructions (SFIs) to reflect the new organisational structure and other relevant issues. The Head of Control and Support Systems summarised the programme of work which would lead to a set of revised SFIs being presented to the Audit Committee for endorsement before being submitted to the NHS Board for approval. In response to a question from Mr Robertson, the Director of Finance explained that the SFIs of both the NHS Board and the relevant local authority would apply to Community Health Care Partnerships. Revised SFIs were not required to allow CHCPs to function from 1 April 2006 but navigational aids were being prepared to assist staff working across organisations. Replying to questions from Mrs Stewart, the Head of Control and Support Systems explained that exceptions to tender were covered under section 10 (Tendering) of SFIs and bad debts were dealt with under section 6 (Income).

In response to a question from Mrs Stewart, the Head of Control and Support Systems undertook to distribute to Members copies of the Executive Summary of the Audit Scotland Report on Consultants' Pay.

**Head of Control &
Support Systems**

NOTED

16 DATE OF NEXT MEETING

The next meeting be scheduled for Tuesday, 9 May 2006 at 9.30 p.m.

17 COMPETITIVE TENDERING FOR INTERNAL AUDIT SERVICES

The Head of Control and Support Systems reported on progress of the competitive tendering process to procure internal audit services with effect from 1 April 2006.

18 APPOINTMENT OF EXTERNAL AUDITORS

The Head of Board Administration reported that notification had been received that the Auditor General has provisionally appointed Audit Scotland as external auditor to NHS Greater Glasgow for the financial years 2006/2007 to 2010/2011. Appointments will be confirmed in April after audited bodies have had the opportunity to comment.

The meeting ended at 11.25 a.m.