A (M) 09/01
Minutes: 01 – 11

NHS GREATER GLASGOW AND CLYDE

Minutes of a Meeting of the
Audit Committee
held in Board Room 1,
Dalian House, 350 St Vincent Street, Glasgow,
on Tuesday 27 January 2009 at 9.30 a.m.

PRESENT

Mrs E Smith (Chair)
Mr P Daniels OBE (To Minute 8)
Cllr J Handibode
Mr I Lee
Mrs J Murray
Mrs A Stewart MBE

IN ATTENDANCE

Mr D Griffin	Director of Finance
Mr J Hamilton	Head of Board Administration
Mr A Lindsay	Financial Governance and Audit Manager
Mr M Gillman	Divisional Financial Governance Officer
Mr C D Revie	PricewaterhouseCoopers
Mr A Gray	PricewaterhouseCoopers
Mr M White	PricewaterhouseCoopers
Mr D McConnell	Audit Scotland
Mr J Rundell	Audit Scotland
Mr G O'Neill	Audit Scotland
Mr J Davidson	Audit Scotland

ACTION BY

01 APOLOGIES

Apologies were intimated on behalf of Mr P Hamilton and Mr D Sime.

02 MINUTES

On the motion of Mrs Stewart, seconded by Mr Lee, the Minutes of the meeting on 11 November 2008 [A (M) 08/06] were approved as a correct record and signed by the Convener.

03 MATTERS ARISING FROM THE MINUTES

In response to a question from Mr Lee in respect of Minute 62 (Internal Audit Report: Knowledge and Skills Framework), the Head of Board Administration undertook to report to Members on progress in reconciling the discrepancy between the Information and Statistics **Head of Board Administration**

ACTION BY

Division's baseline staffing numbers and the Board's own figures.

04 AUDIT SCOTLAND: PROGRESS REPORT NO 2 - JANUARY 2009

A report of Audit Scotland (Audit Paper No 09/01) was presented asking Members to note progress against the various streams of audit work undertaken as part of the audit of the Board's accounts. Mr Rundell (Audit Scotland) described the process followed to produce the detailed annual audit plan (the plan) for 2008/09 which appeared later on the Agenda as item 6. The plan outlined the key risks facing NHS Greater Glasgow and Clyde and set out the planned audit work. Key elements of the plan included

- External audit responsibilities;
- The risk based audit approach;
- The local risks and priorities for NHS Greater Glasgow and Clyde;
- Current national risks as relevant to local circumstances;
- Impact of International Financial Reporting Standards (IFRS) and changing International Standards of Auditing;
- Planned outputs, reporting timescales, fees and resources.

Mr Rundell then described the three key elements of audit work and their component parts including the following matters.

Governance Work

Following a review of internal audit, areas had been identified where reliance would be placed on the work of internal audit to avoid duplication of effort. Joint working would be undertaken with internal audit, particularly in respect of follow up review of the Health Information and Technology action plan produced in response to internal and external audit reports. In addition, controls testing would be undertaken in areas not specifically covered by the internal audit plan.

A review of the Picture Archiving System (PACS) had recently been concluded and key risks identified included the need for robust business continuity and disaster recovery arrangements, capacity management policies and greater certainty regarding on-going maintenance of the system. The report would be presented to the Audit Support Groups in the first instance.

Financial Statements

Mr Rundell described the timetable for the financial statements audit and reported that early work was planned to ensure the tight deadline for reporting was met.

In respect of International Financial Reporting Standards (IFRS), management had provided an opening 2008 IFRS based balance sheet and this was being reviewed with the findings being reported to management by 27 February 2009.

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Performance

Mr Rundell reported that two national reports had been issued recently and summarised the key points from both.

Review of NHS Diagnostic Services

1. NHS Boards had reduced key waiting times through additional work funded by waiting times monies and by changing the way services were managed and delivered.

2. NHS Boards had acted to improve the patient experience.

3. There was variation in the efficiency of radiology, endoscopy and laboratory services which was not fully explained by differences in type of hospital, complexity of work undertaken or how activity was recorded.

4. Better information was needed to manage services and compare efficiency across Boards.

The NHS Board's response to this report would be submitted to the May 2009 meeting of the Performance Review Group.

Financial Overview of the NHS in Scotland 2007/08

Mr Rundell outlined overall financial performance and commented on the challenges and pressures facing NHS Boards in 2008/09 and beyond. In particular, Mr Rundell drew attention to references within the report to NHS Greater Glasgow and Clyde. The findings of the report had been considered in full at the meeting of the Performance Review Group on 20 January 2009.

In conclusion, Mr Rundell referred to the National Fraud Initiative which was underway in respect of 2008/09 and indicated that in liaison with the Financial Governance and Audit Manager, he would report progress to the Audit Committee. **Audit Scotland/ Financial Governance and Audit Manager**

NOTED

05 INTERNATIONAL FINANCIAL REPORTING STANDARDS

A report of the Director of Finance (Audit Paper No 09/02) was presented asking Members to note progress towards implementation of International Financial Reporting Standards (IFRS). The Director of Finance referred to the description in the Audit Scotland Progress Report (Audit Paper no 09/01) of progress within NHS Greater Glasgow and Clyde. The opening balance sheet at 1 April 2008 had been re-calculated to reflect IFRS and submitted to the Scottish Government Health Directorates (SGHD). The re-stated balance sheet was being reviewed by Audit Scotland who would report their comments to management.

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The Director of Finance explained that the two main objectives of IFRS were to improve transparency and introduce greater comparability and consistency across the public sector. Full disclosure of assets and liabilities would be required with consistent approaches adopted to valuation across the public sector. The four key accounting differences for NHS Boards were:

1. Private Finance Initiative (PFI)

   PFI was regarded as the area where IFRS would have the greatest impact with NHS Boards now required to reflect PFI assets and liabilities in their balance sheets where the relevant criteria were met.

2. Leases

   Where a lease was for both land and buildings, the two elements had to be considered separately for accounting purposes. The lease of land would normally be an operating lease while the building element would be a finance lease.

3. Fixed Assets

   All tangible fixed assets should be carried at market value at the balance sheet date although this did not apply where the nature of the asset was so specialised that no market existed for example, main hospital buildings. Properties for sale (available for immediate sale in their present condition and their sale highly likely within twelve months) had to be moved into current assets and would be free from depreciation.

4. Employee Benefits

   Boards would have to accrue for any short term employee benefits earned but not yet taken. The most significant element here would be paid annual leave not taken at the year-end.

The Director of Finance described the process being followed within NHS Greater Glasgow and Clyde to capture the required information and commented on the commitment of the Head and Assistant Head of Operational Financial Services to the implementation of IFRS, noting that both external and internal audit were focussed on this issue. In response to a question from Mrs Stewart, the Director of Finance explained that PricewaterhouseCoopers had been contracted by the SGHD to act as technical advisers to all 22 NHS Boards to ensure a consistent approach across NHS Scotland. Replying to a question from Mr Lee, the Director of Finance commented on the impact of IFRS on the income statement and noted that the SGHD had indicated that during the transitional period, there should be no impact on NHS Boards' cash flow.

The Convener commented that Members could take assurance from the progress report.

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ACTION BY

06 EXTERNAL AUDIT: ANNUAL AUDIT PLAN 2008/2009

A report of Audit Scotland (Audit Paper No 09/03) was presented asking Members to note the Annual Audit Plan 2008/2009. Mr McConnell (Audit Scotland) reminded Members that Mr Rundell (Audit Scotland) had outlined the approach to developing the audit plan in his progress report to the Audit Committee (Audit Paper 09/01). This approach had focused on the following key risk areas:-

- Financial position;
- Community Health and Care Partnerships;
- Service redesign:
- Governance arrangements;
- Clinical governance and patient safety;
- Sickness/absence;
- Knowledge and Skills Framework;
- Health Information and Technology (HIT);
- International Financial Reporting Standards and
- Best Value.

Mr McConnell drew Members attention to the outputs to be delivered from the audit plan as described in paragraph 67 of the plan. These outputs fell into three broad categories: - governance, performance and financial statements.

Mr O'Neill (Audit Scotland) described three planned reviews in respect of HIT.

1 Picture Archiving and Communication System (PACS)

Mr O'Neill commented on the significant role that NHS Greater Glasgow and Clyde had in the PACS project and on the need for robust contingency and disaster recovery arrangements. Responding to a question from Mrs Stewart, Mr O'Neill commented on the issue of product life cycle and maintenance arrangements for equipment.

2 ICT Data Handling

This would be a joint exercise with internal audit and would involve a baseline risk assessment of both policies and operational practices.

3 ICT Status/Follow Up Review

This exercise would be carried out in conjunction with internal audit and would follow up on progress in implementing the recommendations contained in three external audit reports and three internal audit reports issued in 2008/09.

Mr Daniels commented on the different approaches to the audit of Best Value in local authorities and in NHS bodies, noting that Best Value had a wider, more comprehensive application and was not just financial based. In particular, he commented that within the NHS, the focus was on outcomes in terms of the achievement of savings rather than of a review of the processes by which cost savings opportunities

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were identified. Mr McConnell replied that Audit Scotland adopted a gradual, incremental approach utilising the toolkits developed for this purpose. Both Mr McConnell and Mr Revie (PricewaterhouseCoopers) commented on the resource implications of adopting a similar approach to the audit of Best Value as was followed in local authorities. The Director of Finance commented that while the term "Best Value" was not commonly used within the Board, benchmarking and sector comparison were widely used in the Board's service planning and savings identification processes and described examples of this including the use of benchmarking in planning the merger of Glasgow and Clyde Mental Health Services. The Director of Finance further remarked on the challenge presented by the issue of connectivity between different parts of the NHS and how part of one organisation could be affected by the performance or behaviour of another, also the connections to local authority services.

Mr McConnell concluded his summary of the audit plan by referring to the review of the Board's Staff Governance Action Plan and by drawing Members' attention to the audit fees set out within the plan.

NOTED

07 INTERNAL AUDIT PROGRESS REPORT

A report of PricewaterhouseCoopers (Audit Paper No 09/04) was presented asking Members to note progress against the internal audit annual plan. Mr Revie (PricewaterhouseCoopers) explained that the report set out progress against the internal audit annual plan 2008/2009 approved by the Audit Committee in June 2008. With regard to annual plan for 2009/10, Mr Revie undertook to present this to the Audit Committee at the meeting on 24 March 2009 to allow an earlier start to the work required to deliver the plan. In terms of the current year's plan, terms of reference had been agreed, or were being agreed, for the remaining audits on the plan and all audits would be completed by 31 March 2009. **Pricewaterhouse Coopers**

Mr Revie summarised the key elements of the internal audit work carried out during the period covered by the progress report including the following matters.

Statement on Internal Control

For 2008/09, the Statement on Internal Control would for the first time require inclusion of a statement on information governance.

Review of Corporate Functions Savings Plan

Mr Revie described the work undertaken to support management in the process to identify savings in respect of Corporate Functions. The Director of Finance advised on the revised overall savings target and explained that an update on the savings plan would be presented to the Performance Review Group in March 2009. Members agreed that a report to the Audit Committee would not therefore be required. The Director of Finance explained that the review of corporate functions was being led by the Director of the Mental Health Partnership and he would liaise with her on the use of the internal audit review in

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developing the corporate functions savings plan with management.

Information Governance

Mr Revie commented on the risk to the NHS Board of data security breaches and reminded Members of the additional assurance requirement in respect of information governance in the Statement on Internal Control for 2008/09. Following discussions with the Director of Finance and Director of Health Information and Technology, it was agreed that the internal auditors would undertake work to support management with the aim of delivering the following outputs:-

- An organisation wide risk assessment and an enhanced understanding of the information security environment and risk areas;
- Practical and prioritised recommendations and actions to enhance information governance and security.

This work would be separate from, but parallel to the planned review by Audit Scotland of ICT Data Handling as described in the Audit Scotland Audit Plan (Audit Paper No 09/03). An update would be given to the Audit Committee at the meeting on 24 March 2009. Some resources for the internal audit work would be re-allocated from the planned reviews of Data Protection, Data Transfer and Confidentiality and the IT Helpdesk and Support Model. These reviews would now be carried forward to the internal audit plan for 2009/10 and Members agreed that work on these could commence on these at an earlier time in anticipation of the Audit Committee's approval of the internal audit annual plan for 2009/10. **Pricewaterhouse Coopers**

Endowments

Mr White (PricewaterhouseCoopers) described the scope and value of the NHS Board's Endowment funds and the external fund management arrangements. In overall terms, the procedures and controls in place had been designed to control fund spend and were found to be operating as intended. Mr White noted that the consolidation of the legacy Endowment functions appeared to have improved the overall management and monitoring of the funds. A number of issues however, had been identified which could further improve current processes. The most significant of these was that a significant number of funds had no expenditure recorded in 2008. The Director of Finance explained the challenge in addressing this matter and the sensitivity required to pursue the related issues with fundholders. The Head of Operational Financial Services had been working to resolve this matter for over a year and progress was being made. A report would be made to the Audit Committee at the meeting on 27 October 2009. **Head of Operational Financial Services**

Payroll

Mr White summarised the findings of the review of payroll. A number of areas of good practice had been identified and the internal auditors were able to conclude that the design of the controls surrounding the system was adequate to address, in material respects, the key objectives of the system. Some issues were identified however which

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could enhance the current processes.

1. There were no single payroll policies and procedures covering all of NHS Greater Glasgow and Clyde. These were in the process of being developed but delays had occurred due to resource constraints caused by Agenda for Change and a high number of staff vacancies.

2. The authorised signatory list was not yet complete. The Financial Governance and Audit Manager reported that progress was being made to develop an organisation wide list of authorised signatories and it was anticipated that this would be substantially in place by 31 March 2009.

3. Sample testing of starters and leavers identified a number of overpayments due to late receipt by payroll of notifications of termination or change. In some cases, this had resulted in overpayments and these were being pursued via the debt recovery process. Mr Lee expressed concern that the exit process for staff was not fully effective and questioned the action agreed in response to this issue by the Audit Support Group – Corporate and Partnerships. The Director of Finance explained the rationale behind the Audit Support Group's decision. It was agreed that the internal auditors would provide further detail of their findings to allow the Director of Finance to raise the issue with the relevant Directors. The Director of Finance undertook to report progress to the meeting of the Audit Committee on 24 March 2009. Replying to a question from Mrs Stewart, Mr White confirmed that no issues had been identified in respect of the review of controls and processes aimed at preventing fraud.

Pricewaterhouse Coopers

Director of Finance

Mr Revie reported on progress in finalising the report on Financial Planning and Budgetary Control within Community Health and Care Partnerships. This audit had been carried out under the agreed joint working arrangements with the internal audit department of Glasgow City Council and Mr Revie explained the interface between the two sets of internal auditors. It was agreed that the report once finalised would be presented to the Audit Committee.

Pricewaterhouse Coopers

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08 CORPORATE RISK REGISTER 2009

A report of Director of Finance (Audit Paper No 09/05) was presented asking Members to comment on and approve the updated Corporate Risk Register for 2009/2010. The Director of Finance explained the process followed to update the Corporate Risk Register (CRR). Throughout NHS Greater Glasgow and Clyde, there was a full and comprehensive system for recording and managing risk, with an escalation process for referring risk to a higher organisational level when required. During the last twelve months, each division, directorate and corporate service area had reviewed its own risk register and updated it to reflect the most recent assessment of risk. The updated risk registers had been submitted to the Risk Management Steering Group (RMSG) which in turn reviewed the CRR to ensure it continued to reflect the key risks identified within the wider

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organisation by divisions, directorates and corporate service areas. The RMSG reviewed the risks within the individual service registers to ensure consistency of scoring and appropriateness of the wording of the risks, controls described and further actions. The Planning, Policy and Performance Group discussed the draft CRR at its meeting on 15 January 2009.

In addition, the RMSG agreed that the internal auditors should review the process of updating the initial risk registers. Mr Gray (PricewaterhouseCoopers) reported on progress of this review. Six areas had been reviewed with work planned in a further six. The conclusion to date was that the process for maintaining the risk registers was robust and in accordance with the Risk Management Policy. A wide range of staff was engaged in the process and risk registers were being updated at least quarterly and in some cases, monthly. A full report would be presented to the Audit Committee in March 2009. **Pricewaterhouse Coopers**

Replying to questions from Mrs Stewart and Mr Lee, the Director of Finance explained the distinction between "controls in place" and "previously agreed actions to manage risk" and confirmed that the percentage for single rooms at the new Southern General Adult Hospital shown at item 1.2 of the CRR should be 100. **Divisional Financial Governance Officer**

APPROVED

09 REVIEW OF AUDIT COMMITTEE REMIT

A report of the Financial Governance and Audit Manager (Audit Paper No 09/06) was presented asking members to note the proposed process for reviewing the Remit of the Audit Committee. The Financial Governance and Audit Manager reminded Members of the process by which the NHS Board's corporate governance arrangements were reviewed each year with a report in the first instance presented to the Audit Committee for approval before being presented to the NHS Board at its April meeting.

The Scottish Government had recently issued the "Audit Committee Handbook" (the Handbook) for use in all organisations to which the Scottish Public Finance Manual applied, including NHS Boards. The Handbook contained a self assessment checklist and it was planned to complete this checklist and submit it to the next meeting of the Audit Committee for consideration as part of the annual review of corporate governance. The Remit of the Audit Committee would be reviewed against the Handbook, the self assessment checklist and other relevant guidance and a revised Remit submitted to the March meeting of the Audit Committee for approval.

NOTED

10 AUDIT SUPPORT GROUP- CORPORATE AND PARTNERSHIPS: MINUTES OF MEETING ON 12 JANUARY 2009 [ASG CP (M) 09/01]

NOTED

ACTION BY

11 DATE OF NEXT MEETING

The next meeting was scheduled for Tuesday 24 March 2009 at 9.30 a.m.

The meeting ended at 12.10 p.m.