

## **AUDIT COMMITTEE**

**DRAFT** Minute of the NHS Forth Valley Audit Committee meeting held on Friday 22<sup>nd</sup> January 2010 in the Board Room, Carseview, Stirling.

**Present:** Mr Graeme Simmers (Chair)  
Cllr Sam Ovens  
Mr Tom Hart

**In Attendance:** Mrs Fiona Ramsay, Director of Finance, (Executive Lead)  
Ms Fiona Mackenzie, Chief Executive, NHS Forth Valley  
Mr Ian Mullen, Chairman  
Mrs Roseann Stevenson, Audit Manager, FTF Audit Services  
Mr Tony Gaskin, Chief Internal Auditor, FTF Audit Services  
Mr Chris Brown, Scott Moncrieff  
Mr David Eardley, Scott Moncrieff  
Ms Elaine Vanhegan, Head of Performance Management  
Miss Angela Cullen, Audit Scotland (Part)  
Mr Graeme Bowden, Capital Accountant

### **1/ APOLOGIES**

None.

### **2/ MINUTES OF PREVIOUS MEETING**

The Minute of the Audit Committee meeting held on 20th October 2009 was approved as a correct record subject to an amendment requested by Scott Moncrieff, External Auditors.

5.1 The fourth sentence of the last paragraph in this section was amended to read, "Mr Eardley apologised if the Non Executive Director did not feel sufficiently consulted prior to the section appearing in the report".

### **3/ MATTERS ARISING**

#### **3.1 National Shared Services Review**

Mrs Ramsay provided the Committee with an update on the current status of the National Shared Services Review project. Mrs Ramsay intimated that there had been a national session held during December 2009 at which progress to date on a national basis was outlined and in addition steps for the way forward were also discussed. At a local level Mrs Ramsay advised that NHS Forth Valley continued to progress the e~Expenses and e~Payroll developments as a Pathfinder Board and also continued to be involved with e~Payables and Report Distribution developments.

The Committee noted the update on the National Shared Services Review.

### **3.2 Implications of International Accounting Standards**

Mrs Ramsay presented a paper on the Implications of adopting International Financial Reporting Standards (IFRS) that provided a further update to Committee members regarding progress towards the transition to IFRS effective from 1<sup>st</sup> April 2009.

Mrs Ramsay advised that as part of the transitional process, NHS Boards were required to produce restated (shadow) 2008/09 Annual Accounts by 30<sup>th</sup> September 2009 inclusive of all primary statements and supporting notes and indeed NHS Forth Valley submitted their return within this deadline. Mrs Ramsay did however ask the Committee to note that, at the time of the submission there remained some debate nationally over the appropriate accounting treatment of accelerated depreciation and impairments. Due to this uncertainty, NHS Forth Valley therefore submitted two sets of accounts to present the two different accounting options. The restated accounts had been reviewed by External Audit and recommendations made within their report had been incorporated within the final submission. Mrs Ramsay indicated that she would update the Committee at the next meeting with regard to the final ratified accounting treatment when advised by the Scottish Government Health Department (SGHD). Mr Simmers queried if there would be any outstanding issues arising from the conversion to IFRS that could impact on the finalisation of the 2009/10 statutory accounts. Mr Brown advised that such areas were in the process of being discussed at the National Technical Accounting Group and indeed any issues would be resolved prior to the commencement of the 2009/10 annual accounts completion process.

In addition to the restated annual accounts submission, Mrs Ramsay advised that three more submissions had been made to SGHD since the last meeting mainly relating to the Budgetary Impact of converting to IFRS and changes relating to the accounting treatments of Capital Charges and impairments arising from IFRS.

The Committee noted the paper on the Implications of adopting International Accounting Standards.

## **4/ INTERNAL AUDIT**

### **4.1 Internal Audit Progress Report**

Mrs Stevenson presented the Internal Audit Progress Report that summarised the audit work achieved since the last Committee meeting. She informed the Committee that one final report from the 2008/09 plan and six reports from the 2009/10 plan had been issued since the last meeting and a further one report was with management for comment. She also advised that work was underway in five other areas. Mrs Stevenson also highlighted that Internal Audit had collaborated with Falkirk Council to provide advice to staff at the Sensory Centre on cash handling.

The Committee were provided with a summary on the reports that had been issued as final including:-

*A72/09~Departmental Review* - Internal Audit visited six departments and appropriate central locations to review the risk, and ascertain and test procedures

over a number of systems. These assessments of systems together with details of any weaknesses found were reported to the relevant General Manger and the Chief Operating Officer. Where appropriate, an Action Plan has been agreed with the General Manager to addresses weaknesses and issues of non compliance which will improve the effectiveness of the internal control framework.

**A14/10~Sustainability of Environmental Strategy** – This review found that NHS Forth Valley had made good progress towards meeting mandatory requirements of the Environmental management Policy for NHS Scotland however there remain opportunities to improve some of the governance arrangements surrounding environmental issues.

**A22/10~Fraud & Probity Arrangements** - The objectives of the review were to ensure that systems are sufficient to provide assurance that NHS Forth Valley has adequate arrangements in place to meet roles and responsibilities set out in the Partnership Agreement. The findings of the review indicated that appropriate arrangements are indeed in place albeit the Fraud Action Plan requires updating to reflect guidance issued within CEL(2009)18.

**A32/10~Purchase, Sale & Disposal of Fixed Assets** - This assignment reviewed the arrangements in place to provide assurance that fixed assets are being appropriately managed in line with relevant guidance. Although there is a current Financial Operating Procedure the actual systems in place do not always reflect what is required within the procedure. A critical review of the procedure is therefore required to strip out redundant processes

**A60a/10~PDA Usage** – the control objectives of this review were to ascertain whether All PDA issues are required and have been appropriately authorised, PDA set-up procedure includes consideration of appropriate level of connection to internet for updates/retrieval and whether contracting procedures ensure best value tariff obtained is in line or competitive with the personal mobile market and appropriate monitoring of usage and costs is in place. By initiating the review it was also anticipated that savings would be identified and assurance provided that the Board were obtaining value for money within the existing contracts. The report highlighted that systems in place has weaknesses but they do not threaten the achievement of control objectives.

**A61/10~Central Stockholding** - This review assessed the impact of the National Distribution Centre on the Central Stores department within NHS Forth Valley and also looked to provide assurance that there are adequate systems in place for the ordering, receiving and payment of goods purchased through National Procurement. The report indicated that Internal Audit are satisfied that NHS FV is achieving the efficiency and financial benefits anticipated from the implementation of the centralised National Distribution Centre (NDC)

The Committee noted the Internal Audit Progress Report.

## **4.2 Internal Audit Mid-Year Review**

Mr Gaskin presented the Internal Audit Mid Year Review and advised the Committee that the review examined the framework in place for NHS Forth Valley to provide assurance to the Chief Executive that there is a sound system of internal control supporting the achievement of the Board's objectives. The Mid Year Report allowed the opportunity to amend processes accordingly prior to the year end. Mr Gaskin asked the Committee to note that the review had established that there were no control weaknesses evident and indeed that NHS Forth Valley continues to develop and maintain the control framework.

With regard to Risk Management, Mr Gaskin highlighted that good progress had been made with NHS Forth Valley adopting an approach to embed risk management within the culture of the organisation. The Corporate Risk Register is now a standing item at most Committees. Mr Gaskin also asked the Committee to note that in addition good progress had been made in the development of Information Governance processes and indeed the grades achieved in comparison to those awarded in June 2009 had increased within the IM&T Strategy and Information Security Policy components.

Mr Gaskin advised that the review on Best Value that was due to have started in June 2009 had been postponed to allow Internal Audit to facilitate the development of a system to provide positive assurance to the Accountable Officer on Best Value. Mr Gaskin indicated that Internal Audit had held initial discussions with officers of NHS Forth Valley and the Committee would be kept informed about any systems established to assist in providing assurance on Best Value as they were developed.

The Committee noted the Internal Audit Mid-Year Review report.

## **5/ EXTERNAL AUDIT**

### **5.1 External Audit Plan 2009/10**

Mr Brown presented the External Audit Plan for 2009/10 and emphasised that the purpose of the plan was to set out the ways in which both NHS Forth Valley and Scott Moncrieff will meet their respective responsibilities under the Code of Audit Practice and the Statement of Responsibilities published by Audit Scotland. Mr Brown indicated that Scott Moncrieff would again be following a Risk Based approach to their audit planning that would reflect their overall assessment of the relevant risks that apply to the Board. The key elements of the planned work would cover:

- A review of the Board's key priorities and risks;
- An interim audit, taking account of the work of Internal Audit, of accounting systems and corporate governance. Mr Brown asked the Committee to note that this review had taken place during December 2009;
- A review of the Board's arrangements as part of the National Fraud Initiative data-matching exercise;
- A review of the Fife/Tayside/Forth Valley Internal Audit Service;
- A Best Value review of Partnership Working and Community Leadership;
- A review of the Board's 2008/09 financial statements, restated on an International Reporting Standards (IFRS) basis as required by the Scottish Government Health Department. Mr Brown indicated that this exercise had been completed;
- Evaluation of the action taken by the Board in response to Audit Scotland National Study reports; and an audit of NHS Forth Valley's 2009/10 financial statements.

With regard to the planned work on Best Value, Mr Brown indicated that the precise timing of the review had still to be agreed and indeed further discussions were ongoing with Board Management and Audit Scotland. Mr Brown did

however indicate that the work would have to be completed by the end of April 2010. Ms Vanhegan highlighted the potential work required on the system wide illustration of Best Value. She commented that it was important to ensure effective linkage to the impending Quality Strategy and Integrated Healthcare Strategy and ensure that whatever process was considered, it did not duplicate and it added value. Good progress has already been made in developing robust systems for providing assurance to the Accountable Officer on Best Value and indeed Board Management had been developing these systems while taking advice from both Internal and External Audit albeit further work was required to take account of this.

Mr Brown indicated that Scott Moncrieff would again be focusing on the areas of highest risk such as Public Private Partnership arrangements for the New Acute Hospital and Clackmannanshire Health Resource, the Bellsdyke Development Project, assessment of Equal Pay liabilities and also NHS Forth Valley's financial position in relation to the current global financial climate.

With regard to the 2009/10 Audit Fee Mr Brown confirmed that this had been agreed with the Director of Finance and would remain similar to previous year's at the mid-point of the fee range set by Audit Scotland.

Mrs Ramsay confirmed that the other Directors involved had agreed the content of the Plan.

The Committee noted the draft External Audit Plan for 2009/10.

## **5.2 IFRS Restated 2008/09 Accounts Review**

Mr Eardley presented the report issued on the Review of IFRS Restated 2008/09 Financial Statements and advised the Committee that he was pleased to report that the exercise had been completed by NHS Forth Valley within the 30<sup>th</sup> September 2009 deadline. Mr Eardley advised that the External Audit review of the restated accounts had also been completed and any necessary adjustments had been agreed and made to the submissions. The Committee were advised that the main adjustments in the shadow accounts submitted by the Board were in relation to the holiday pay accrual, the Impairment of property and the recognition of leases under revised IFRS accounting principles. The Committee were asked to note however that the figure highlighted within the report for Impairment of property was draft until final confirmation on the timing of such accounting transactions had been agreed with the Scottish Government Health Department.

The Committee noted the Review of IFRS Restated 2008/09 Financial Statements report.

## **5.3 Audit Scotland Reports**

### **5.31 Scotland's Public Finances – preparing for the Future**

Mrs Angela Cullen from Audit Scotland's Performance Reporting Group provided the Committee with a presentation in relation to the Scotland's Public Finances report issued by Audit Scotland in November 2009. She advised the Committee that Scotland's economy had been in recession

since mid 2008 and that the public sector was under the greatest financial pressures since devolution ten years ago. Mrs Cullen advised that the Scottish budget has increased each year since devolution at the rate of just over 5% per annum. This rate of increase is however unsustainable and by 2013/14 it is anticipated that the Scottish budget will have reduced in real terms by approximately 13%. Mrs Cullen highlighted that the Scottish Public Sector therefore faces significant challenges ahead in balancing its budget while continuing to deliver on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services and indeed the existing 2% annual efficiency savings targets would not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

Mrs Cullen emphasised that difficult decisions will have to be taken in the future and the Scottish Government will have to continue to develop its financial management and improve methods for evaluating how well money is being spent in delivering against government priorities and improving public services. To facilitate this, the Scottish Government and the wider public sector need to work together to develop better cost, activity and performance information. Mrs Cullen emphasised that this would be required to support a budget process that allows informed choices to be made between competing priorities, and would provide greater efficiency and productivity within the Scottish public sector.

Ms Mackenzie commented that the report had been very helpful in getting the difficulties that the public services in Scotland will be facing into the public domain as it had received good media coverage. Mr Mullen also commented that Audit Scotland had been very helpful in generating a more realistic approach to tackle the problems created by the financial crisis. Cllr Ovens also highlighted that there were great opportunities for partnership working between the various public service departments to minimise duplication and hence contribute towards filling the deficit gap.

The Committee noted the Scotland's Public Finances report and presentation provided by Mrs Cullen. Mr Simmers thanked Mrs Cullen for attending and providing the presentation and at this point she left the meeting.

### **5.32 Financial Overview of the NHS in Scotland 2008/09**

Mrs Ramsay presented the Financial Overview of the NHS in Scotland report issued by Audit Scotland for 2008/09. Mrs Ramsay advised that the report highlighted that all NHS Boards met their financial targets in 2008/09 and the NHS had an overall underspend equating to £4m. The report did however indicate that 2009/10 would be a peak year for public spending in comparison to future years and it was predicted that budgets will reduce in real terms over the next five years.

Mrs Ramsay indicated that from a local perspective the report highlighted that the recent recession had affected planned income for some NHS Bodies that were relying on asset sales to fund capital programmes. The Report commented that within NHS Forth Valley less income had been

received than previously forecast for the sale of Bellsdyke land during 2008/09 resulting in the costs of site works exceeding the amounts received for the sale of plots of land, thus requiring a loss in sale to be recorded in the financial statements. The report also highlighted that NHS Forth Valley was one of five Boards due to receive funding increases due to current funding level compared to level due if NRAC target was applied nationally.

The Committee noted the Financial Overview of the NHS in Scotland 2008/09 report.

## **6/ AUDIT FOLLOW UP REPORTS**

### **6.1 Internal Audit Follow-Up Report**

Mr Bowden presented the Internal Audit Follow-Up Report and highlighted that the purpose of the report was to brief the Committee on progress made in addressing recommendations made within Internal Audit Reports. He indicated that progress had been made since the last Committee meeting and that 71% of the recommendations made by Internal Audit had now been addressed or were in the process of being finalised. Mr Bowden further advised the Committee that since the last meeting no action points had been referred back to audit for resolution. With regard to the outstanding recommendations, Mr Bowden advised that they emanated from four reports and provided the Committee with a summary overview on the detail of each.

The Committee noted the Internal Audit Follow-Up Report.

### **6.2 External Audit Follow-Up Report**

Mr Bowden presented the External Audit Follow-Up Report and advised that the review process was currently ongoing with four final External Audit Reports issued by Scott Moncrieff. Mr Bowden indicated that to date there were no recommendations currently due for a response outstanding and provided the Committee with a summary of the outstanding issued due to be reviewed later in the year.

The Committee noted the External Audit Follow-Up Report.

## **7/ GOVERNANCE ISSUES**

### **7.1 Audit Committee Terms of Reference**

Mrs Ramsay presented a paper that outlined a revised version of the Audit Committee Terms of Reference. Mrs Ramsay indicated that to comply with NHS Forth Valley's standing documents the Terms of Reference were required to be reviewed annually.

The Committee approved the revised Audit Committee Terms of Reference subject to minor amendments to sections 4.1. The last paragraph of this section was amended to read "The duties of the Audit Committee are in accordance with Government Internal Audit Standards".

## **8/ RISK MANAGEMENT**

### **8.1 Corporate Risk Register**

Ms Vanhegan presented the December 2009 version of the Corporate Risk Register and advised the Committee that since the last meeting the register had been updated to reflect movements in the status of operational issues listed. Ms Vanhegan indicated that the Risk Network was becoming well established and there was a very positive improvement in its ability to maintain an overview of the risk levels held within Unit/Departmental Risk Registers whilst ensuring a robust escalation process was in place. Ms Vanhegan also advised the Committee that NHS Quality Improvement Scotland had carried out their Clinical Governance and Risk Management Review during January 2009 and indeed feedback had been very positive on progress made.

Mr Simmers queried how risk issues flowed through the system and Ms Vanhegan informed the Committee that the Corporate Risk Register was now a standing item on all NHS Forth Valley Committees.

The Committee noted the Corporate Risk Register.

## **9/ COUNTER FRAUD SERVICES**

### **9.1 Counter Fraud Services Quarterly Report**

Mrs Stevenson presented the Counter Fraud Services Report for quarter ending 30<sup>th</sup> September 2009 and asked the Committee to note that within the report there was one referral relating to NHS Forth Valley that was being taken forward by the Fraud Liaison Officer.

The Committee noted the Counter Fraud Services Quarterly report.

There being no further business, the meeting closed at 11.25am.

## **13/ DATE OF NEXT MEETING**

The next meeting of the NHS Forth Valley Audit Committee will take place on Friday 19<sup>th</sup> March 2010 in the Board Room, Carseview, Stirling commencing at 9.30am.