

Lanarkshire NHS Board
Kirklands
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**Meeting of the Audit & Risk Committee, Tuesday 7 March 2023
at 9am via Teams**

CHAIR: Mr B Moore, Non-Executive Director

PRESENT:

Mrs L Macer, Non Executive Director
Mrs S White, Non Executive Director
Cncllr E Logan, Non Executive Director

IN

ATTENDANCE:

Mrs L Ace, Director of Finance
Mrs M Holmes, Head of Internal Audit
Mr T Gaskin, Chief Internal Auditor
Mr G Smith, Deputy Director of Finance
Ms Charlotte Hope, Corporate Risk Manager
Mr Paul Cannon, Board Secretary
Mr Mark Ferris, Audit Scotland (until item 7)
Mr John Boyd, Audit Scotland (until item 10)
Ms Fiona Owens, Audit Scotland

APOLOGIES:

Martin Hill, Chair
Professor Jann Gardner, Chief Executive
Cncllr M Coyle, Non Executive Director

1.	WELCOME AND DECLARATION OF INTERESTS	ACTION
	Mr Moore welcomed the new attendees to the committee. He ascertained there were no relevant interests to declare. Ms White advised that in a previous role with Audit Scotland she had worked with Mr Ferris but that was some time ago and introduced no conflict.	
2.	APPROVAL OF THE MINUTES OF THE MEETING HELD ON 6 DECEMBER 2022	

	The Committee: Approved the minutes of the meeting.	
3.	ACTION LOG	
	Mr Gaskin agreed to link with Ms White outside the meeting to finalise the wording on the audit charter.	TG
	The Committee: Accepted the action log update.	
4.	MATTERS ARISING	
	None.	
5.	EXTERNAL AUDIT	
	2022/23 Annual Audit Plan	
	<p>Mr Boyd introduced the plan, noting a slightly later start due to covid related extension to completing previous audits with the intention to move all their clients back to a normal cycle this year.</p> <p>He explained the risk based approach and the materiality thresholds they would use, with the upper limit set at 1.5% of the resource envelope and any individual misstatement over £250,000 being reported. He talked through the wider context including the pressures facing the Board over the following years in terms of finance and operational sustainability.</p> <p>He talked members through the rationale for the increase in audit fee. In completing the tender exercise for the next five years' appointments higher cost estimates were submitted relating to higher expectations on auditors round accounting estimates and judgements and regulatory compliance as well as a higher general inflationary increases. He said there had been debate at national level, but the fee rise was unavoidable.</p> <p>Ms White asked whether the high level review proposed of Best Value was in line with their normal audit practice for the NHS or was a lighter touch. He assured Ms White that it was the normal level of review and that an integral part of their audit work was looking at financial management, financial sustainability, leadership and governance and use of resources to improve outcomes. They would be looking at the extent to which accountable officer has arrangements in place to ensure best value. He also noted the more onerous local authority regime was changing to take out the separate best value report and integrate it more with overall reporting.</p> <p>Mr Gaskin reminded the committee of the comprehensive Best value exercise prepared by the finance director every 3 years</p>	

	and that the Chief Internal Auditor’s Internal Control evaluation which covered wider aspects of best value.	
	The Committee: Noted the report Accepted the audit fee	
6.	INTERNAL AUDIT	
	i) Progress Report 2022/23	
	<p>Mr Gaskin confirmed that the audit programme, though slightly behind at this point, would be completed on time.</p> <p>He noted that historically the grades of recommendations might have been slightly better which was a feature across the entire FTF client base reflecting a level of background pressures and higher inherent risks being experienced.</p> <p>He flagged that the review of complaints had indicated there were more complaints not being completed in line with deadlines. He noted a higher percentage of complaints in Lanarkshire converted to a more formal resolution and suggested it would worth looking to see if there was a way to improve lower level, more informal resolution. He noted the report would go to HQAIC for a more in depth review.</p> <p>Mrs Ace assured the committee that the number, resolution time and outcome of complaints was one of the areas reviewed by CMT on a regular basis and that the reports to the 5th of March meeting had shown a more recent improvement in the numbers resolved within the target timeframe.</p> <p>He talked through the main findings of the control of infection audit including a recommendation for greater focus on what was being done to control the risks. He confirmed an action plan was in place to address the issues.</p> <p>He asked if the Workforce report, which was still in progress , could be taken to Staff Governance committee once complete rather than waiting first for a presentation to the Audit Committee.</p> <p>Mrs Ace updated the committee that since the internal audit on the accounts payable process had been carried out (highlighting a higher level of outstanding invoices than in the previous year) the national finance system upgrade had led to the automated processing being off line for extended periods .</p>	

<p>Although the Board had quickly switched to manual processing the longer time that took combined with the higher year end volume had resulted in the backlog increasing to a peak of over 11,000. Staff had been redeployed from management accounting functions to help clear the backlog and payments on account had been authorised to key suppliers where appropriate to ensure continuity of supply and avoid late payment penalties. The issue had been raised at CMT to secure support from all budget holders to rapidly turn round goods receipting or clearing invoice queries to avoid any further delay. The system was now back up though still with intermittent downtime. It was hoped to return to more normal levels by the end of the next week</p> <p>Mr Smith added that the system was hosted nationally so this was an issue affecting all Boards.</p> <p>Mr Gaskin observed that the Board would want to consider the controls around the national platform. Mrs Ace reminded the committee that this was deemed to be an external system where control weaknesses could potentially have an impact on the Board's own ability to achieve its objectives and as such it was subject to an annual assurance report from the service auditors that was presented to the Audit committee each June as part of the evidence to support the governance statement narrative. She said the problems experienced during the upgrade had been discussed nationally by Directors of Finance and the importance of a lessons learned report emphasised so that it could be seen that controls were in place to prevent this in any future upgrade. Mr Boyd confirmed Audit Scotland would be looking at the service auditor's report and would consider whether any additional substantive testing was needed to ensure the system issue had not impacted on the financial statements.</p> <p>Mrs Macer said the committee would welcome a further report on the finance systems incident to ensure better controls in place. She confirmed the workforce report could go straight to the Staff Governance committee. She observed that it was important for Infection control that levels of compliance with hand hygiene procedures were raised and asked if there were areas or cohorts where compliance was less and where additional support should be put in place.</p> <p>Mrs Holmes explained the issue was widespread has been picked up through infection control committee and there are collaborative groups and peer reviews to raise compliance. She</p>	<p>GS</p> <p>TG</p>
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	<p>said it was important to remind staff of the policy and also of the requirements of their own professional codes in terms of this important patient safety issue.</p> <p>Mr Moore said this would be an important issue to flag in the summary report to the Board.</p>	BM
	THE COMMITTEE: Noted the report.	
	ii) Follow-up Report	
	Mr Gaskin noted 100% compliance with implementing agreed actions.	
	THE COMMITTEE: Noted the report.	
	iii) ICE	
	<p>Mr Moore noted that the committee had considered this at an earlier stage and was now seeing the complete report with the management response.</p> <p>Mr Gaskin said the report was as seen before and he was satisfied with the management responses.</p> <p>Mr Moore highlighted that the most significant recommendations were around financial sustainability. Mr Gaskin said the Board needed to look at the overall strategy “Our Health Together” to be within the constraint of financial sustainability which could involve some difficult decisions.</p>	
	The Committee: Noted the report	
	iv) Draft Plan 2023/24	
	<p>Mr Gaskin talked through the process of targeting the audit plan towards the areas of greatest risk. He noted that the level of inherent risk in the environment was higher than it had been previously. He planned over the forthcoming weeks to discuss the risk assessment with directors to fine tune the prioritisation and then take the draft to CMT.</p> <p>He asked if, following the CMT discussion, the Chair of the Audit committee could sign off some early audit work to allow it to proceed in advance of the June committee. Mr Moore agreed this approach.</p>	TG

	The Committee: Noted a draft plan would come to the next audit committee and agreed that some early audit work could be signed off by the Chair of the committee.	
7.	GOVERNANCE STATEMENT	
	(i) Guidance	
	<p>Mr Smith informed the committee that the annual accounts manual, including guidance for preparing the governance statement was reviewed annually and the current version was on the cusp of being issued. The draft guidance presented to the committee was expected to move unchanged into the final manual. Apart from some changes in presentation within the guidance there were no substantive changes to the governance statement design or content advised by this draft version.</p> <p>Mrs Ace provided further context. She said the Audit committee played an important role in assuring that the content of the statement properly reflected the control environment within the Board and to assist it in fulfilling that role a suite of papers would be presented between the March and June committees to allow them to form a view. These would supplement the Chief Internal auditors ICE and annual report and the External audit management report and opinion on the financial statements.</p> <p>Ms White welcomed the structured approach and asked if it would be worth bringing a summary of other items that the Audit committee had considered during the year so it could be considered alongside the set reports. Mrs Ace reflected that some of the issues would naturally be picked up through annual reports, citing the fraud report and Chief Internal auditors annual report and that the workplan could serve as a reminder of issues considered. She agreed it was worthwhile reviewing the workplan and seeing if there were areas where a summary of areas considered and conclusions reached could aid the committee's consideration.</p>	LA
	(ii) Key Lines of Enquiry for Risk Management	
	Mrs Ace explained that the Governance Statement was required to give an opinion on whether an adequate and effective risk management system was in place and the Audit committee was the key committee remitted to consider this. In order to allow the Audit committee to do this a structured series of questions, derived from the Public Audit handbook, had been pulled together and for each there was a description of the evidence as	

	to what the organisation had in place to achieve those features of a good system of control.	
	(iii) Accountable Officer's Duties	
	Mrs Ace explained that it was important for the Governance Statement that the accountable officer was aware of their various specific accountabilities and had appropriate measures in place. To demonstrate this to the Audit committee a standard national checklist had been completed, setting out what was in place in Lanarkshire, signed off by the Chief Executive and presented to the Audit Committee.	
	(iv) Draft Annual Report for the Audit Committee 2022-23	
	Mrs Ace explained that each Governance committee prepared an annual report confirming they had delivered their remit during the year and highlighting any significant issues. Presented to the Audit committee today was a draft report prepared by herself but reviewed and amended by the Chair of the Audit committee. The audit committee was invited to submit any further comments. The final report would be presented to the Board alongside all other Governance committee annual reports in May 2023 and the entire pack would be considered by the Audit committee in June as part of the evidence on control systems and potential significant weaknesses.	
	(v) Board Self Assessment: Board Development Action Plan	
	Mrs Ace explained that the guidance required a specific inclusion on the Boards self assessment and action plan. The last exercise the Board undertook was in 2021 with the 2022/23 exercise deferred because of a revision to the Blue print for Corporate Governance and a new template which was to be piloted by another Board. She advised that the Board would therefore not be in a position to complete a new exercise before the sign off of the 2022/23 accounts so the reference this year would be slightly dated.	
	The Committee: Accepted the evidence presented.	
8.	WORKPLANS	
	(i) Workplan 2022/23	
	Mrs Ace explained that in advance of the year the committee set out the schedule of reports it wished to consider in order to fulfil its remit and gain the appropriate assurance. As items were	

	considered they were marked off, if anything was added or deferred that too was noted. She noted that there had been some minor changes to scheduling of some reports but other than that the committee was on track to deliver its workplan.	
	(ii) Workplan 2023/24	
	Mrs Ace presented a draft workplan for 2023/24 and invited any comments. She observed that the committee had flexibility at any stage to add items if they felt they needed additional assurances.	
	The Committee: Noted the satisfactory progress with the 2022/23 workplan and accepted the draft 2023/24 workplan.	
9.	FRAUD UPDATE	
	(i) Fraud Report	
	<p>Mrs Holmes updated the committee on further proactive work, with CFS opening a web link to fraud issues experienced by all Boards so risks could be identified.</p> <p>She noted that a structured fraud risk assessment would be presented to the June audit committee with an update on the fraud standards.</p> <p>She advised the committee that the National Fraud Initiative work had commenced and that they had started looking at the payroll items but delayed looking at the creditors matches until the issues with the national accounts payable system had been resolved.</p> <p>Mrs Ace added that she had recently attended a Fraud champions induction session where CFS had described a statistical exercise they had conducted to analyse the types of fraud resulting in a risk assessment that would mean they would target their efforts on staff fraud, procurement fraud and Ophthalmic and dental payments. Mr Moore noted that corresponded with areas of reported frauds in the Audit committee overview.</p>	
	The Committee: Noted the report	
10.	ARRANGEMENTS TO SECURE EFFICIENCY	
	Mrs Ace talked to the paper, informing the committee that due to the release of significant additional funding from SG in the final quarter the forecast was now for breakeven in 2022/23.	

	<p>She noted that this had not seemed possible in the first three quarters of the year.</p> <p>Mrs White asked if the reason for SG waiting till the final quarter was known and whether it was an underlying view that if money had been released earlier Boards may have spent it and still posted a deficit for which there was now no cover.</p> <p>Mrs Ace said she tended to concur with Mrs White’s assessment though some of the additional funding from the national voluntary drugs access scheme may have, judging by press coverage, only become certain in the later months of the year. Earlier reports from SG and in the Auditor General’s briefing on the December budget statement had indicated that there was a genuine risk of a shortfall in funding. Mr Moore observed that SG’s forward revenue plan also indicated financial difficulties and Mr Gaskin added that given the level of Board deficits forecast there would have to come a point when it became too large to bail out.</p> <p>Mrs White noted it would be easier if funding was announced up front. Mrs Ace agreed, both to allow proper planning and also in terms of credibility as it would be more difficult for people to believe there was a significant underlying problem if unheralded money appeared in the final quarter. She said SG had said they intended to announce more money at the start of the year and include more in the baseline rather than in separate ringfenced pots. She added the Board had not yet been advised of the level of funding it would receive for the 2022/23 pay deals so there was still some uncertainty in forecasts.</p> <p>Mrs Ace talked the committee through the projections for 2023/24 which had been presented to the PPRC in February 2023. These showed a substantial underlying gap for which there was not at present an efficiency plan large enough to close. She talked the committee through the structure of the Sustainability and Value programme which aimed to segment the Boards activities into areas of focus, each theme chaired by director and with the aim of leaving no stone unturned in looking for opportunities.</p> <p>Mr Gaskin added that the deficit forecast by NHS Lanarkshire was consistent with what he was seeing across other Boards. He noted that although the financial sustainability risk was highlighted in external and internal audits reports and in the boards own risk assessment it was still not clear the extent to which Boards were expected to take the radical action needed</p>	
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	to close a gap of that size, especially given the conflicting ambitions of the published NHS recovery plan.	
	The Committee: noted the report	
11.	PROCUREMENT	
	(i) Update	
	<p>Mrs Ace explained the purpose of the report was to present for audit committee scrutiny the instances where there had been any departure from open competitive procurement, setting out the reasons for this so the committee could form a view on whether the correct balance was being struck. She added further background from the lessons learned on previous procurement frauds where over restrictive specifications combined with collusion could lead to business being awarded to one supplier that was neither in the Board’s interests or the wider national interest in creating a fair and vibrant economy.</p> <p>The report also updated the audit committee on the progress with a high risk procurement to refresh the laboratories managed service contract.</p> <p>Mr Moore noted the risk associated with this both in terms of the extended procurement process and the later transition risks to the service.</p>	
	The Committee: Noted the report	
12.	RISK MANAGEMENT	
	(i) Risk Management Summary Report	
	<p>Ms Hope talked the committee through the interim arrangements that had been in place in the gap between Mrs McGhee retiring and her own appointment. Governance committees continued to receive updates on the risks for which they were responsible for reviewing. Directors continued to review their own risks. CMT continued to be very responsive to changes in risk profile and considered each meeting whether there were any new or emerging risks that required action. The previous formal suite of reports to CMT each month had not been prepared but one of her early actions had been to conduct a review of all the risks on the corporate risk register with directors. She presented the current profile and highlighted where the main changes had been since the previous report to the Audit committee. She noted that the previous very high risk of not achieving breakeven in 2022/23 had now been reduced</p>	

	<p>to near its target level of low following the receipt of additional SG funding but that a new very high risk that the Board would be unable to achieve financial breakeven over the 3 year period to 2025/26 had been introduced. She explained further work was to take place in moving the covid related public health risk to a more general risk on future outbreaks.</p> <p>She talked through the presentational changes which focussed on the main areas of change and showed visually and numerically where a risk sat in relation to its target risk.</p> <p>Mr Moore commented that the presentation enhanced the Audit committee’s ability to focus on the key issues and understand the risk movements.</p> <p>Mr Gaskin observed that given the higher inherent risks in the environment some of the target risk levels set out may be unattainable and a review might be worthwhile.</p> <p>Ms White asked if it had been considered whether Operation Flow should have been added to the risk register as risk in itself given the potential impact of changing patient dispositions. Mrs Ace said the view had been that Operation Flow was a mitigation to extant risks associated with delays in ambulance offloading, long waits in the Ed departments and patients not being discharged at the appropriate point. She said that there were 3 times daily meetings across the hospitals to review the status of the beds and patient flow, with a daily 4pm review from a core group of directors and senior staff to ensure any emerging issues could rapidly be dealt with so the change was subject to a very live process of review and adaptation. Mr Cannon confirmed this was the case and that operation Flow was a controlled mitigation to existing unacceptable risks.</p> <p>Mr Moore noted the previous reports had included Acute and HSCP risks to show how they aligned to corporate risks and also KPIs on risk management and asked how these might fit into future reports. Mr Cannon said they would take the opportunity to do a wider review of the reports but for the report to the Board in March there would only be limited changes.</p>	
	<p>The Committee: Noted the report, welcoming the new format of reporting.</p>	
<p>13.</p>	<p>REVIEW OF SFIs & SoD</p>	

	<p>Mr Smith informed the committee that the SFIs and Sods were reviewed annually to keep them in line with regulations and to ensure any learning during the year on controls could be reflected. Some very minor changes had been proposed and reflected but otherwise they remained extant.</p> <p>Mr Moore reflected on the delegated authority limits being far lower when the Board was in the position of having a forecast deficit and that this could mean the Board becoming involved in decisions at a lower level. Mrs Ace acknowledged this was the situation. In so far as any relevant decisions were encompassed in the overall package of the financial plan the Board could be given a wider approval but for individual decisions arising during the year the limit for recurring expenditure now sat at £75,000.</p>	
	The Committee: Endorsed the SFis and SOD for going to the Board for approval	
14.	AUDIT SCOTLAND REPORTS	
	(i) NHS in Scotland 2022	
	<p>Mr Moore picked up the key themes of the report, many of which he said resonated locally in terms of financial sustainability, staff turnover and waiting lists. He noted the comment on the wider recovery plan being developed without Boards' involvement and the need to be transparent and open about the implication of waiting times.</p> <p>Mr Gaskin also reflected on the thread around financial sustainability that ran through the Audit Scotland report, the local Internal Controls evaluation, the Efficiency report and the Board's risk register.</p>	
	The Committee: Noted the report	
	(ii) Update	
15.	Audit Committee Self Assessment Exercise	
	<p>Mrs Ace explained this was a review that took place annually using a structured questionnaire taken from the Public Audit committee handbook. She said she tried to populate it with facts about what the audit committee had in place with regards to each question in order to assist members reach a conclusion on whether the answer fairly reflected the committee's arrangements. Mrs White asked if there had been though given</p>	

	to each individual separately scoring the questionnaire and then comparing. Mrs Ace said it had been considered and that approach had been taken previously for the Board development questionnaire. A divergence in scores for certain questions sometimes reflected that the member had perhaps not been at a board meeting when certain items were presented and it was difficult to draw an overall conclusion. Mr Cannon commented that providing members with some precompleted evidence helped reduce the risk of someone not remembering that the Board had considered it though it was acknowledged a divergence might be useful for highlighting individual member training needs. Mrs White indicated that she was content with the approach being taken.	
	The Committee: Agreed to submit any further comments to Mrs Ace with a view to reporting back the completed self assessment to the next audit committee.	LA
16.	Arrangements for Future Meetings	
	It was noted that the Chair of the Board had asked for at least one meeting a year of each governance committee to be held in person. Mrs Drumm confirmed the Board room had been booked for June and all future meetings for 2023/24 but that a hybrid option was available for members or attendees who could not travel.	
17.	AOCB	
	None.	
18.	DATE OF NEXT MEETING	
	Tuesday 6 June 2023, 9am in the Board Room	
19.	FUTURE MEETINGS IN 2023	
	28 June 2023 at 8.30am (annual accounts) 5 September 2023 at 9am 5 December 2023 at 9am	