NHS Borders

Annual report to Borders Health Board and the Auditor General for Scotland

2004 / 2005

SCOTT-MONCRIEFF

CHARTERED ACCOUNTANTS

EDINBURGH AND GLASGOW

Contents

1 Summary

Performance

- Progress against national priorities, corporate objectives and the Performance Assessment Framework is reported in the NHS Borders Managing our Performance Report. This report demonstrates good practice in performance monitoring arrangements.
- An in-patient redesign project is addressing the concerns of "too many beds in too many locations." This project will need to consider the issues raised in the Kerr report.
- Improvements to the NHS Borders disaster recovery and business continuity planning arrangements are required.
- Joint working arrangements within the Borders are considered to be advanced.

Governance

- Single-system working has now been operating for two years and NHS Borders are seeing the practical advantages in terms of accountability, financial planning, capital planning, joint working and the achievement of savings targets.
- The Statement of Internal Control highlights a number of areas requiring further development. These include improvements to risk management arrangements.
- NHS Borders currently does not have a non-executive member with recent, relevant financial expertise. We consider it important that this issue is addressed during the next round of non-executive appointments.

Finance

- Our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.
- NHS Borders achieved all three of its financial targets for 2004/05.
- We are satisfied that adequate arrangements are in place for managing the Board's financial position and maintaining its financial health.
- The financial plan for the next five years has been approved, which includes significant savings targets across NHS Borders.
- Key financial risks include the implementation of Agenda for Change, the full impact of which will not be known until after December 2005.

Conclusion

This report concludes the 2004/05 audit of NHS Borders. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that NES has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Director of Finance and has been prepared for the sole use of the Board, the Auditor General for Scotland and Audit Scotland.

We would like to thank all members of NHS Borders management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff
22 July 2005

2 Introduction

2.1 Audit framework

The Auditor General for Scotland is the Scottish Parliament's watchdog for ensuring propriety and value for money in the use of public funds. The Auditor General is therefore responsible for appointing NHS auditors and setting the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code of Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The Auditor General has appointed Scott-Moncrieff as auditors of NHS Borders for the 5 year period 2001/02 to 2005/06.

2.2 Key priorities and risks

Our audits are risk based. This means that we focus our resources on the areas of highest priority or risk to the Board. To help us identify these areas, Audit Scotland have developed a National Planning Tool setting out the following key priorities and risks for NHS Scotland as a whole.

- Governance – clinical, staff and financial
- Service sustainability
- Financial management
- Performance management
- Pay modernisation
- Workforce management
- Joint working
- Information management

In order to define the scope of our work, we agreed with the Chief Executive the extent to which each of the above areas were key priorities and risks for NHS Borders.

2.3 Scope of the audit

Our work can be classified under the following three headings: performance audit, governance audit and financial audit. The main audit objective for each of these areas is summarised below, along with the key priorities and risks for each area.

Table 2.3-1 - Audit areas v priorities and risks

Audit area	Audit objective	Key priorities and risks
Performance Audit	To review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.	Service sustainability Performance management Workforce management Joint working Information management
Governance Audit	To review the Board's governance arrangements in relation to: • systems of internal control, • the prevention and detection of fraud and irregularity, • standards of conduct and prevention and detection of corruption, • its financial position.	Corporate governance Clinical governance Financial governance Staff governance
Financial Audit	To provide an opinion on the truth and fairness of the Board's financial statements and on the regularity of transactions.	Financial management Pay modernisation

2.4 Audit reporting

We have prepared the following detailed audit reports during 2004/05:

- Staff governance report,
- Priorities risks and framework report
- Interim management report
- Final report on financial statements and accounting systems.

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of performance, governance and finance. The action plan in section 6 details all of the high priority recommendations we have made during the year, along with management's responses.

3 Performance

3.1 Performance against national targets

NHS Borders has implemented a performance management system across the organisation with the objective of supporting staff to deliver improvements and provide more efficient and effective services.

The system is based on the national priorities for NHS Scotland, which form the framework for NHS Borders corporate objectives and the Local Health plan. On a quarterly basis progress against the national priorities is reported in the Managing our Performance Report. This sets out progress against the national priorities, corporate objectives and the Performance Assessment Framework (PAF). A traffic lights system highlights achievements and areas where further work is required. The report demonstrates good practice and the 2004/5 report is replicated below:

Table 3.1-1 High level performance indicators (extract from Managing Our Performance 2004/05)

Performance indicator	Traffic Light	Direction
% of women breast – feeding at 6 weeks		↑
% patients treated within 9 months		↑
% Patients treated within 6 months		↑
% Out-patients seen within 26 weeks		↑
48 hours access to primary care		↑
Achievement of new GMS Quality and Outcomes Framework Targets		N/A
Achievement of delayed discharge targets		↑
Delayed discharges waiting over 6 weeks		↑
Delayed discharges waiting over 12 months		↔
Waiting times in A%E: % seen in less than 30 minutes		↑
Waiting Times in A&E: % seen in less than 60 minutes		↔
Waiting times in A&E: % seen within 120 minutes (Trolley Cases)		↑
Waiting Times in A&E: % seen in less than 120 minutes (Walking Wounded)		↑
Waiting times in A&E: % admitted within 4 hours		↑
Cancelled admissions: % of planned admissions for Inpatient or Day Case		↓
Did Not Attends: % of first Outpatients Attendances.		↑
Financial Targets - Work within RRL		↔
Staff Sickness Absence		↓
Compliance with NHS Quality Improvement Scotland standards for Healthcare Acquired Infection (HAI)		↑
Email accounts in use		↑

Traffic Light Symbols		Direction Symbols	
Worse than plan		Better performance than previous year	↑
Close to plan		Same performance as previous year	↔
Better than plan		Worse performance than previous year	↓

3.1.1 Performance against waiting times

At the end of March 2005, there were no patients in NHS Borders waiting more than 6 months for an inpatient appointment. This compares with 361 as at 31 March 2004. A total of 87 patients at 31 March 2005 however waited longer than 6 months for an out-patient appointment. This represented 3% of the total number of people waiting for an out-patient appointment. This is an improvement on the position at 31 March 2004 when 1146 of outpatients were waiting over 6 months.

As NHS Boards will in future be expected to meet even shorter maximum waiting times NHS Borders must ensure that appropriate management arrangements are in place to meet these revised targets.

3.1.2 Performance review process

In addition to high level reporting to the Board, NHS Borders have developed a performance review process which involves a quarterly performance review for each clinical service. The performance reviews follow a standard agenda that includes items such as corporate objectives, waiting times, financial position, risk management and service strategies.

3.2 Service Sustainability

The Kerr report *"National Framework for Service Change in the NHS in Scotland",* highlighted a number of key issues which NHS Borders needs to consider particularly in relation to service redesign and regional planning. Kerr highlighted that 'consideration needs to be given to using District General Hospitals in different ways' and that 'specialised or complex care should be concentrated on fewer sites.' Kerr's other proposals also need to be considered in light of this.

3.2.1 In-Patient Redesign

As part of the 2004/5 Local Health Plan, NHS borders established an in-patient redesign project with the brief of "considering, based on the size of population and our priorities the range and level of services we should provide locally in the future." In-patient services must be clinically and financially sustainable and the project sought to cover three strands: Borders General Hospital, mental health services and community hospitals.

Currently NHS Borders' concern is that there are "too many beds in too many locations." The high level outcomes of the project were restated in April 2005:

- To redesign inpatient services so that they are fit for the 21st century.
- To ensure the inpatient services are sustainable and use fewer financial and staffing resources than at present.

The work of the project group in the last 12 months has encouraged involvement from the public and other parties in redesigning in-patient services. The group anticipates presenting a business case to the Board in September 2005. Following consideration of the business

case a final proposal will go to public consultation with final submission to the Scottish Executive in April 2006.

3.3 Joint Future

Joint working is considered to be advanced within the Borders area. Particular areas of joint working include Learning Disability, Property and Training. The Well Being Partnership Board along with the New Ways Project Board are two of the main drivers for joint futures in the Borders. It is recognised however that work needs to be undertaken to join up performance management systems across the partner areas.

The Borders' Delayed Discharge Steering Group, which has representatives from NHS Borders and Scottish Borders Council, has lead responsibility for reducing the numbers of delayed discharges. At 30 April 2005 the actual number of delayed discharges was 29 against a target of 30.

NHS Borders are fortunate to be in the position of being a single system health body working with one local authority. This has enabled joint working to have a single focus that may not have been as easily achieved under three separate health bodies before unification.

3.3.1 Community Health Partnerships

NHS Borders is planning to establish a single Community Health Partnership (CHP) with Scottish Borders Council. This arrangement has been approved in principle by the Scottish Executive. Prior to formal approval of the Scheme of Establishment, the Scottish Executive has requested additional information on progress made with the CHP by October 2005.

Joint working across all NHS services, Acute, Primary Care, Mental Health and Learning Disabilities will come within the Scottish Borders CHP. The CHP committee will also include representatives from the voluntary sector. The first meeting of the CHP committee is planned for August 2005 and it is anticipated that the committee will then meet four times per year. It is the intention of the Board to merge the CHP with the existing Service Redesign Committee in line with the initial guidelines produced by the Scottish Executive.

3.4 Workforce Management

NHS Borders has submitted a baseline workforce plan to the SEHD however some slippage has arisen in the implementation of the Scottish Workforce Information Standard System (SWISS). Reports on the national and local positions are fed back to the Staff Governance Committee and information leaflets have been distributed to staff to advise them of the information, which is to be held about them. A Service Redesign Group has also been established. This group will be responsible for identifying workforce issues relating to service redesign.

We noted during our review that a number of HR policies were not up to date. A group is now in place to implement a prioritised list of policies. However the drain on resources from Agenda for Change is considered to impinge on the Board's ability to provide the necessary resources to deal with this. The capacity across the organisation to implement Agenda for Change is strained, particularly in the payroll department.

3.5 Information Management

A detailed road-map has been produced for the next three years identifying both local and national projects and how IM&T fits into this. The Head of IM&T is presenting this roadmap to clinicians and senior management throughout NHS Borders to demonstrate how the Board will be matching the business objectives against future targets.

Our review however found that few disaster recovery or business continuity plans are in place within NHS Borders. Exceptions to this are the business continuity planning which has

taken place in relation to the GMS contracts supported by IM&T and a disaster recovery plan for the finance system supported by NHS Tayside. There is however, no business continuity plan in place for the finance system. We also found that although information sharing protocols are in place in relation to emails and hardcopy data, protocols covering other joint systems with partners have not yet been drawn up.

4 Governance

4.1 Governance Framework

This is the second full year that NHS Borders has operated as one organisation following the merger of the former trusts and Board on 1 April 2003. NHS Borders have embraced single system working and consider that they are beginning to see the practical advantages of this. Executive Board level appointments were made early on in the unified Board's first year and this has brought continuity and stability to the delivery of plans in 2004/5.

4.1.1 Advantages of single system working

NHS Borders have embraced the changes from unification fully and from early on in the unification process have ensured that there was single system working wherever possible. Two years following unification NHS Borders can see the advantages of choosing single system working in the delivery of health services in the Borders. Importantly, the single system has led to clear accountability across all levels of the Board. The Board has a single focus and a consistent view of risks that are acceptable to the organisation when taking decisions. Work undertaken with other partners such as joint futures has also benefited from having one health body with a single voice and focus.

Financial planning has become more transparent, with greater clarity in the needs of individual budget holders informed by a better understanding of where the real cost pressures lie. The identification of potential areas for cost savings is easier, although still onerous, and these savings can be replicated across NHS Borders more readily. Consistency within financial plans has also improved. Previous inconsistencies between the Trust plans and the Board plan no longer occur. All of this leads to better control over the overall financial position of NHS Borders.

2005/06 will see the completion of the remaining major capital projects originally planned prior to unification. Since the introduction of single system working NHS Borders have found it easier to identify the true priorities for the capital programme.

A number of cost savings have been achieved following unification. In 2003/04 the savings made were mainly that of management costs although other savings were achieved as NHS Borders strove to meet its financial targets. The Medicines Management Group has achieved significant savings in 2004/05, which NHS Borders consider is partially due to the fact that the committee was able to make recommendations and raise awareness across the whole system.

Some weaknesses in effective single system working still exist but NHS Borders are working to address these.

4.2 Staff Governance

The NHS Reform (Scotland) Act 2004 makes it a statutory requirement for NHS employers to have in place arrangements for good governance of staff. Failure to comply with this duty can attract the powers of intervention contained in the NHS (Scotland) Act 1978. The staff governance framework means that Boards are equally accountable for how they behave as employers as well as their existing accountability for finance and clinical matters. The aim of this standard is to improve the way staff are treated in NHSScotland, to be clear on what staff should expect wherever they are in NHSScotland, and to improve accountability for making this happen.

From our review we found that NHS Borders has undertaken a considerable amount of work to deliver the actions identified in the 2003/04 Staff Governance action plan. The key actions delivered include a review of partnership structures within NHS Borders. This was conducted to clarify partnership working and emphasise their role within the different areas of management within NHS Borders. This has resulted in the establishment of an HR Forum

to act as a negotiating body and the development of partnership structures for each clinical board. The HR Forum was scheduled to meet for the first time in May 2005. NHS Borders has also developed and implemented a communication strategy, which has been issued to all staff. An action plan has been produced which seeks to address communication issues within the organisation.

A key issue for NHS Borders is that it does not currently have a computerised HR System. As a result the processes for collecting and collating the mandatory statistical information which was required as part of the review would have been manually intensive to collate. Consequently the mandatory statistical information that was collected by NHS Borders did not fully comply with the Staff Governance Standard. There is a statutory obligation to collect and report this information and NHS Borders is currently unable to fully comply with this responsibility. The requirement for an HR System is a priority for the organisation and this has been recognised. NHS Borders is in the process of introducing a system and this has been included within their action plan.

The overall action plan has been developed to take the organisation forward and ensure compliance with the Staff Governance Standard. The action plan develops specific areas that are still outstanding from previous years but also highlights areas for development that have arisen from changes within the NHS.

4.3 Corporate Governance

NHS Borders has a responsibility to:

- Develop and implement systems of internal control and at least annually to conduct a review of the effectiveness of the internal control systems.
- Establish arrangements to prevent and detect fraud and irregularity.
- Ensure its affairs are managed in accordance with proper standards of conduct.
- Conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

As auditor to NHS Borders we are required to review and report on the corporate governance arrangements. Our overall conclusion is that the Board's corporate governance arrangements are satisfactory.

4.4 Statement of Internal Controls

The framework of internal controls in operation at NHS Borders is reported within the Statement of Internal Control (SIC) included in the accounts. NHS Borders has identified a number of areas as requiring further development and disclosed these within the SIC as follows:

- Establishing a scheme of delegation following the introduction of a single Community Health Partnership.
- The formal adoption by NHS Borders Board of the Risk Management Strategy.
- Regular reviews by the Risk Management Board of information captured in the new organisational risk register.
- Developing a more formal approach to monitoring risk management training.
- The formal adoption by the NHS Board of a Records Management Policy Strategy to integrate existing policies.

- The introduction of a staff governance information system with particular reference to the monitoring of sickness and absence.

- A review of a range of health and safety procedures, incorporating fire safety and security, to ensure that best practice is being followed.

- The need for improved surveillance of infection across NHS Borders has been recognised.

- The production of an updated, comprehensive estates management strategy for NHS Borders.

In 2004/05 a self-assessment exercise was undertaken, in conjunction with internal audit, using the Department of Health Controls Assurance Standards as a benchmarking tool to assess the internal controls that were in place at NHS Borders. This review identified that the majority of processes within NHS Borders are working satisfactorily or in some cases at a best practice level. However, the assessment noted major weaknesses including the absence of a comprehensive human resources management information system. This weakness is also noted within the SIC.

4.5 Internal Audit

4.5.1 Review of Internal Audit

We have placed reliance wherever possible on the work of internal audit. This followed a review of the internal audit service provided by Lothian and Borders Management Audit service. The review was performed in accordance with the Code of Audit Practice and Statement of Auditing Standard 500 and concluded that the internal audit service provided to NHS Borders was in compliance with the NHS in Scotland Internal Audit Standards.

4.5.2 Liaison with Internal Audit

To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work in the following areas:

- Statement of internal control

- Senior Managers Pay

- Risk management arrangements

- GMS contract reports

- Key reconciliations

We are satisfied from our review of internal audit and of their reports to NHS Borders that they are providing senior management with an independent appraisal of the Board's activities in line with the NHS Scotland Internal Audit Standards.

4.6 Risk Management

The Turnbull report *Internal Control: Guidance for Directors on the Combined Code* states that a sound system of internal control depends on a thorough and regular evaluation of the risks faced by the body. During 2004/05 NHS Borders has continued to make progress with the development of risk management arrangements, although some improvements are still required. Overall it has been noted that the ability to assess and consider strategic risks across NHS Borders has been made easier since the introduction of single system working.

A risk management strategy and policy has now been finalised and was approved by the Risk Management Board in April 2005. An electronic risk register has also been put in place for NHS Borders that identifies 'owners' of risk at director level. Work to further develop these registers will continue during 2005/06 as NHS Borders looks at strategic risks facing the organisation alongside the performance management process and the Local Health Plan.

During the annual review by NHS Quality Improvement Scotland, it was noted that NHS Borders were making good progress towards single system working. The review also noted that NHS Borders requires to raise the profile of clinical risk within the organisation.

In our opinion, although improvements still require to be made, NHS Borders have implemented adequate arrangements for the management of risks.

4.7 Fraud, irregularity and corruption

To ensure the integrity of public funds, it is the Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity, including:

- developing, promoting and monitoring compliance with standing orders and financial instructions,
- implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating allegations of breaches of proper standards.

We plan our work so as to provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity. In particular, we focus on specific areas of high risk for potential fraud and irregularity and review the control arrangements in place in these areas.

We are pleased to report that no major issues of concern have arisen with regard to the arrangements in place for the prevention and detection of fraud and irregularity.

4.8 Standards of conduct, integrity and openness

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the SEHD.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over tendering and awarding contracts, registers of interest and disposal of assets.

We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct, integrity and openness.

4.9 Audit Committee

The Smith Report on Audit Committees recommends that:

"At least one member of the audit committee should have significant, recent and relevant financial experience. It is highly desirable for this member to have a professional qualification from one of the professional accountancy bodies."

In an NHS context this would include individuals who had served in a senior finance role or as an auditor. NHS Borders does not have a non-executive member with recent and relevant

financial expertise. We consider it important that this issue is addressed during the next round of non-executive appointments.

5 Finance

5.1 Financial outturn

It is the responsibility of NHS Borders to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider NHS Borders financial standing, including the arrangements in place for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to properly control the organisation's operations and use of resources

5.2 Annual accounts and audit timetable

The timetable for production of the NHS in Scotland Summarised Accounts is very tight. The deadline for the submission of audited NHS Board's accounts to the SEHD is 31 July. We are pleased to report that the accounts were approved by the Board of NHS Borders and will be submitted to the SEHD and the Auditor General for Scotland prior to 31 July 2005.

We are grateful to the Director of Finance and his staff for submitting draft accounts and supporting papers on the dates requested which were of a high standard. Adjustments to the accounts were on the whole, minor and related mainly to classifications of expenditure. There were also considerable adjustments undertaken within a tight timeframe regarding the revaluation of fixed assets held by NHS Borders.

5.3 Targets

Health Boards are set the following financial targets by the SEHD:

- To remain within the Revenue Resource Limit (RRL), i.e. expenditure should not exceed the RRL
- To remain within the Capital Resource Limit (CRL); and
- To remain within a cash limit

Table 5.3 - Performance against financial targets 2004/05

Financial Target	Target £000	Actual £000	Underspend £000	Target achieved
Revenue Resource Limit	£146,873	£143,493	£3,380	✓
Capital Resource Limit	£6,732	£5,682	£690	✓
Cash Requirement	£141,299	£141,299	-	✓

We are pleased to report that NHS Borders have achieved all three targets set by the SEHD in 2004/05. NHS Borders have under-spent against their RRL and CRL for 2004/05. Permission has been obtained from the SEHD for these amounts to be carried forward into 2005/06.

The under-spend against the RRL resulted primarily as a result of slippage on the programme for revenue refurbishment to Galashiels Health Centre together with other similar commitments made but not incurred by the Board. The amounts that have been carried forward will be used to complete the Galashiels Health Centre refurbishment and other projects that were not completed in 2004/05 as well as supplementing the planned costs of pay modernisation which are expected to impact in 2005/06.

Savings have been made across NHS Borders as a result of the establishment of four working groups covering the Board's activities. Savings have also been made by the Board in relation to capital charges and depreciation following an independent revaluation of the NHS Borders estate as at 31 March 2005. This revaluation has reduced the depreciation and cost of capital charges on the estate by approximately £1m.

Capital expenditure during the year was in line with the budget and Capital Resource Limit, however a property purchase anticipated to conclude prior to 31 March was not completed This has caused the saving against the Capital Resource Limit. The property purchased is currently expected to be completed early in 2005/06. The saving on the Capital Resource Limit has been carried forward into the 2005/6 limit for this purpose.

5.4 Savings achieved

NHS Borders has now established four working groups that focus on the full range of activities encompassed by the Board and examine areas that aim to generate cost savings. The groups are,

- In-patient redesign
- Medicine Management
- Value for Money and Benchmarking
- Commissioning

Medicine Management and Commissioning form a large part of NHS Borders' expenditure and thus it is imperative that a knowledgeable panel critically evaluates all potential savings in an attempt to reduce costs. All of these groups will become more important in 2005/06 as NHS Borders faces a significant savings gap in future financial plans

5.5 Financial planning, budgetary control and reporting

We have reviewed the arrangements in place at NHS Borders and have found them to be satisfactory.

Monthly returns were submitted to the SEHD within the required timescales and in the required format.

We have identified improvements in the timing of management information, however, we consider the financial planning for NHS Borders to be adequate. Financial reporting to the Board is further supplemented by reports monitoring progress against the financial recovery plan.

5.6 NHS Borders' Financial Recovery Plan

Following the integration of the former Borders General Hospital NHS Trust, Borders Primary Care Trust and Borders Health Board to form NHS Borders action has been taken by the Board to reduce the overriding recurring deficit facing the Board. However, with increasing drug costs and significant increases in pay costs following the pay modernisation programme, further action requires to be taken.

The financial plan for 2005-2010 has been written into the Local Health Plan approved by the Board of NHS Borders in June 2005. This shows financial balance being achieved initially in 2005/06 and being maintained from then on but only if a recurring savings programme of almost £4m can be delivered over the planning period.

5.7 Financial Recovery Plan Summary

Table 5.7 - Projected financial position 2005/06

	2005/06 £m	2005/06 £m
Recurring income	142.322	
Recurring expenditure	(146.037)	
Underlying recurring surplus / (deficit)		**(3.715)**
Non-recurring income, including surplus b/f	4.380	
Non-recurring expenditure	(2.665)	
Balance of non-recurring		1.715
Funding Gap		**(2.000)**
Other income sources:		
Corporate savings programme		2.000
Projected surplus/ (deficit)		**0**

5.8 Reliance on non-recurring funding

The projected figures for 2005/06 show NHS Borders achieving financial balance as a result of the carry forward of surpluses from 2004/05, and achievement of a corporate savings programme totalling £2m. It is essential that the savings programme delivers savings on a recurring basis, in order to reduce the underlying deficit of £3.715m.

As described below, pay modernisation, together with drug costs, will have a significant impact on achieving financial balance in future years. As a result, the NHS Borders Local Health Plan highlights that significant savings require to be made across the board area during 2005-2010 in addition to the corporate savings shown above. We would urge NHS Borders to continue to monitor its financial position closely.

5.9 Cost pressures

The pay modernisation agenda will continue to represent the most significant cost pressure for all NHS bodies over the next few years. The largest element of pay modernisation is the Agenda for Change project as this covers the majority of staff working in NHS bodies including nurses, midwives and administration staff. However significant concerns also exist relating to the future cost burdens arising from the Modernising Medical Careers agenda.

The additional money which NHS Borders has built into plans to implement the pay modernisation agenda is set out in the table below.

Table 5.9 - Pay modernisation costs

Recurring Costs	2003/4	2004/05	2005/06	2006/07
Consultant contract	1,202	337	150	150
Agenda for Change		1,330	1,703	500
GMS (including out of hours)		2,129	(46)	
	1,202	3,796	1,807	650
Non-recurring costs				
Implementation costs	0	200	600	-

The above table shows the gross costs charged against Hospital and Community Health Services growth funding received from the SEHD.

5.10 Consultants contract

During 2004/05, NHS Borders have completed all required actions to introduce the consultants contract. The new contract has now been fully implemented across NHS Borders.

5.11 General Medical Services

The new GMS contract was implemented on 1 April 2004 introducing an element of quality achievement payments to general practitioners. GP Practices now score a number of points according to their performance against a range of clinical, organisational and patient-experience indicators. These points are then converted into quality achievement payments using a number of factors including the relative list size of the practice and disease prevalence in the area.

In 2004/05 funding received from the SEHD reflected practices achieving approximately 64% of the maximum score. This was based on the estimate that 80% of practices would receive 80% of the maximum score. Most practices in NHS Borders have achieved highly in their quality achievement scores with the average score being 94% of the maximum possible. This has resulted in a higher spend than anticipated that is well in excess of funding for 2004/05.

Under the terms of the GMS contract the payments received by GP practices for each point achieved will increased in 2005/06. Funding from the SEHD will increase to an average 81% - based on 90% of practices achieving 90% of the score. However, NHS Borders has estimated that their practices are likely to achieve 1,000 points out of the maximum 1,050 available – 95% of the score. The shortfall anticipated in 2005/06 is unlikely to be materially different from the shortfall recorded in 2004/05 and has been built into the financial plan.

5.12 Agenda for Change

The Whitley Council pay arrangements were replaced by Agenda for Change on 1 October 2004. While staff moved onto the Agenda for Change conditions from 1 December 2004, they will not move onto their Agenda for Change salaries until job descriptions have been matched to job profiles that have been set nationally.

Job descriptions have yet to be agreed for all staff across NHS Borders. This is a position common to most other mainland NHS Boards in Scotland. At present work in NHS Borders has been focussed on the matching of job descriptions for nurses, midwives and ancillary staff. At the end of May 2005, 27.5% of nurses and midwives and 38% of ancillary posts within NHS Borders had a matched job description. The overall position of NHS Borders at the end of May 2005 is that 19% of the total workforce has a matched job description.

The number of panels that sit to match the job descriptions are intended to increase over the coming months as NHS Borders prepare to begin matching administration and clerical posts. Work will continue however, at the same time on the matching of nursing & midwifery and ancillary posts.

Where applicable staff will receive backdated pay to 1 October 2004 once all staff are transferred to the Agenda for Change salaries. NHS Borders will incur future salaries and wages costs in relation to 2004/05 and therefore these costs have been accrued for in the Board's 2004/05 accounts. The full cost of Agenda for Change for 2004/05 will not be known until all jobs have been matched to job profiles on a national basis.

The implementation of the Agenda for Change initiative has already resulted in considerable additional work for NHS Borders and the Board remain concerned regarding the capacity of the organisation to properly address all of the requirements of Agenda for Change. Particular concerns were expressed regarding the capacity of the payroll department to deal with the volume and complexities of the changes required.

5.13 Out of Hours Service

Following the implementation of the new GMS contract on 1 April 2004 all GP's in the Borders area have opted out of providing out of hours services. NHS Borders now have the responsibility to provide and pay for these services. Due to the large and geographically dispersed and often rural area that NHS Borders covers this is a significant cost for the Board to fund. Funding of £400,000 per annum was channelled back to the Board from GP practices to cover the cost of providing the service, however the full cost of the new service is over £2m and has resulted in additional costs of over £1.3m needing to be provided for in the financial plan.

NHS Borders plan to undertake a review of the out of hours service during 2005/06. A decision was taken by the Board to not to allocate recurring funding to the service until it had been running for a year and a review of the service and associated costs had been undertaken.

5.14 Efficient Government

NHS Borders in common with the rest of NHSScotland is required to deliver significant efficiency savings as part of the Scottish Executive *Building a Better Government-Efficient Government.*

The level of efficiency savings to be delivered by NHS Borders amount to:

Table 5.14-1 - Efficiency savings to be delivered

Year	£ million
2005/6	1.328
2006/7	2.745
2007/8	4.247

NHS Borders have been assured that these savings are not in addition to the savings programme already put in place by the Board and all savings will be retained by the Board.

5.15 Fixed Asset Revaluation

As reported in our 2003/04 final report, the NHSScotland estate was revalued at 31 March 2004. The revaluation recorded increased values of the land and buildings held by NHS Borders and a reduction in the useful economic life attributed to them. The estimated financial effect of this was to increase depreciation by approximately £600,000 per annum and increase the cost of capital by approximately £300,000 per annum.

NHS Borders disagreed with the useful economic life attributed to the Borders General Hospital by the VOA as at 31 March 2004. Following discussions with SEHD and other NHS Boards in a similar position, the Board commissioned James Barr to undertake an alternative valuation of the NHS Borders estate at 31 March 2005. Non-recurring financial support was obtained from the SEHD for the increased costs in 2004/05.

At a sub-committee of the Board in May the valuation performed by James Barr as at 31 March 2005 for the Borders General Hospital was accepted. In June the Board accepted the valuation performed on the community properties - the remaining portion of the NHS Borders estate. Both valuations have been used in the 2004/05 financial statements. We are satisfied that the accounting treatment adopted for the NHS Borders estate as at 31 March 2005 is correct and in line with accounting standards and generally accepted accounting practice.

6 Action Plan

Our final report action plan details the key, priority one control weaknesses and opportunities for improvement that we have identified during 2004/05. These are the issues that we believe need to be brought to the attention of the Board.

We have followed-up the key points from our previous action plans to ensure they have been implemented as agreed. Unless otherwise stated in our report all prior action points raised have been satisfactorily cleared.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

6.1 Priority Ratings

The priority rating is intended to assist the Board in assessing the significance of the issues raised and prioritising the action required to address them. The rating structure is summarised as follows:

Priority 1 High risk, material observations requiring immediate action;

Priority 2 Medium risk, significant observations requiring reasonably urgent action;

Priority 3 Low risk, minor observations which require to be brought to the attention of management.

6.2 Action Points arising from our 2004/05 final audit

Title	Weakness Identified	Risk and Recommendation	Management Comments
Application and review of SEHD regulations and guidance	Throughout the year circulars are issued by the SEHD regarding the pay and conditions of NHS employees. During audit testing it was identified that one of these circulars had not been distributed to the payroll department through the channels that are normally used. While the Payroll manager has confirmed that this circular has no effect within NHS Borders, there remains concern that a payroll circular has not been satisfactorily distributed to the payroll department and actioned appropriately. Upon further investigation it was identified that the Board maintains no formal system for the follow up and review of action required by SEHD circulars or guidance.	There is a risk that circulars that do have an effect on NHS Borders employees' pay are not received by the payroll department and thus not actioned in an acceptable timeframe. We recommend that the Board maintain a database of required actions from SEHD circulars, including details of who has been allocated responsibilities for action. A follow up of the action required should be performed to ensure that the circular has been distributed accurately and the appropriate action taken as required. **Priority 1**	We are currently logging circulars onto a spreadsheet, noting the distribution and the lead for action and the date action is required by. Follow up reminders are sent and actions recorded **Responsible Officer:** Director of Corporate Management and Performance **Implementation Date:** Immediate

Title	Weakness Identified	Risk and Recommendation	Management Comments
Directors Remuneration	We recommended in our 2003/04 final report that full formal minutes were recorded for all remuneration committee meetings to maintain an adequate and formal record of all decisions taken. Our review of the remuneration committee minutes for the year found that while a record was being taken of these meetings they did not formally record all important aspects of the meetings. For example the minutes did not state that when senior management team pay increases were being discussed the Director of Human Resources left the meeting during any discussion of his own salary increase.	There is a risk that without full formal minutes of such sensitive meetings a conflict of interest may be assumed by the reader with the interpretation that the Director in question may have influenced his own salary increase. We again recommend that full formal minutes are recorded for all remuneration committee meetings to maintain an adequate and formal record of all decisions taken. **Priority 1**	Agreed **Responsible Officer:** Director of Human Resources **Implementation Date:** Future meetings of remuneration committee.

Title	Weakness Identified	Risk and Recommendation	Management Comments
Fraud and Irregularity	During 2004/05 significant changes were made to the arrangements for tackling fraud in NHSScotland, including an expanded role for Counter Fraud Services (CFS). As a result NHS bodies were required to take a number of steps to address these new working arrangements. This included the nomination of a Fraud Liaison Officer, a Deputy Fraud Liaison Officer and delegation of responsibility to an operational manager to co-ordinate action following suspected theft or fraud. Internal audit carried out a review of this area during May 2005 and highlighted the following required actions: • Allocation of individual responsibilities as outlined above • Signing of partnership agreement between NHS Borders and CFS prior to 31 March 2005 • Communication of policy to staff and build it into induction material and Patient Information • Develop relationships with CFS and plan for pro-active counter fraud activity by CFS • Develop associated internal policies and procedures to take account of the new arrangements	There is a risk that NHS Borders does not have adequate arrangements in place for the prevention and detection of fraud. NHS Borders should ensure that the actions contained within the action plan outlined by internal audit are undertaken. **Priority 1**	All actions outlined by internal audit have been agreed. **Responsible Officer:** Director of Finance **Implementation Date:** 31 October 2005

Title	Weakness Identified	Risk and Recommendation	Management Comments
Audit Committee	The Smith Report on Audit Committee's recommends that: "At least one member of the audit committee should have significant, recent and relevant financial experience. It is highly desirable for this member to have a professional qualification from one of the professional accountancy bodies." In an NHS context this would include individuals who had served in a senior finance role or as an auditor.	There is a risk that the audit committee's ability to hold the Board to account on financial issues may be impaired. This will then impact on the Audit Committee's ability to fully discharge its role and responsibilities. NHS Borders should ensure that this issue is addressed during the next round on non-executive appointments. **Priority 1**	The recommendation of the Smith Report will be brought to the attention of the Chief Executive **Responsible Officer:** Director of Finance **Implementation Date:** 31 July 2005
Agenda for Change	Agenda for Change became effective from 1 October 2004, with an implementation date of 1 December 2004. NHS Borders have put in place a project implementation team to manage the process of transferring their 4,000 employees from existing terms and conditions to the new agreement. The timetable for the implementation of Agenda for Change is challenging and highly sensitive to local and national issues such as appeals over the job appraisal/matching process. In addition, NHS Borders has concerns over its human resource and payroll capacity to deliver Agenda for Change.	Agenda for Change is a significant risk to NHS Borders in terms of its financial impact but also on partnership working and relationships with staff. Similar experience from the consultants contract implementation process identified that the actual cost of implementation was significantly higher than the estimated original cost. NHS Borders must ensure that the Agenda for Change implementation process continues to be effectively controlled and monitored. Financial assumptions and estimates should be regularly reviewed to ensure any changes are identified at an early stage in the process. **Priority 1**	The Director of Human Resources will report to the Pay Modernisation Board and the Health Board on a regular basis. The involvement of Senior finance staff on the working groups will ensure that financial risks are identified and incorporated into Borders Health Board financial plans when required. **Responsible Officer:** Director of Human Resources **Implementation Date:** Ongoing

Title	Weakness Identified	Risk and Recommendation	Management Comments
Statement of Internal Control	The Statement of Internal Control describes the following measures to be taken by NHS Borders to improve internal controls during 2005/06: • Establishment of a scheme of delegation following the introduction of a single Community Health Partnership. • The formal adoption by the Board of the Risk Management Strategy. • Regular reviews by the Risk Management Board of information captured in the new organisational risk register. • Development of a more formal approach to monitoring risk management training. • The formal adoption by the Board of a Records Management Policy Strategy to integrate existing policies. • The introduction of a staff governance information system with particular reference to the monitoring of sickness and absence. • A review of a range of health and safety procedures, incorporating fire safety and security, to ensure that best practice is being followed. • The need for improved surveillance of infection across NHS Borders has been recognised. • The production of an updated, comprehensive estates management strategy for NHS Borders.	We will follow-up the Board's progress in implementing these internal control improvements during 2005/06. **Priority 1**	The Assistant Director of Finance (Planning and Control) will be monitoring progress on all identified issues throughout the financial year. Regular updates will be provided to the Audit Committee. **Responsible Officer:** Director of Finance **Implementation Date:** During 2005/2006

Title	Weakness Identified	Risk and Recommendation	Management Comments
Risk Management	NHS Borders have made good progress toward the development of a robust, unified system of risk management during 2004/05. This has included the finalisation of an NHS Borders risk management strategy and policy. As described in the Statement of Internal Control, further actions require to be taken to ensure that the arrangements for the management of risk remain up to date and adequate for the needs of the organisation.	Whilst the risk management framework within the organisation continues to develop there remains a risk that the organisation may have inadequate arrangements for the management of risk. NHS Borders must ensure that they continue to develop risk management mechanisms. This will include continued training of staff members and the development of a proactive risk management culture throughout the organisation. The risk management and strategy policy should also be approved by the Board. **Priority 1**	The RM Strategy and Policy will be submitted to the NHS Board at its meeting on 4 August 2005 as part of the overall governance framework for the organisaton. **Responsible Officer:** Director of Corporate Management and Performance **Implementation Date:** 31 August 2005

Title	Weakness Identified	Risk and Recommendation	Management Comments
Working Time Regulations	The Working Time Regulations 1998 (WTR) came into force on 1 October 1998 and were introduced under the provisions of the Health and Safety at Work Act 1974. NHS Borders have undertaken significant work during 2004-05 on their compliance with the regulations. Despite this work a number of areas within NHS Borders remain non-compliant with the terms of the WTR. In particular concerns remain regarding community hospitals and night duty rotas. Specific areas of concern include the provision of a 20 minute break when working days exceed 6 hours and 11 hours consecutive rest between each working day in a 24 hour period.	NHS Borders are currently in breach of the Working Time Regulations. These are part of health and safety legislation and are statutory requirements. Many of the actions required to ensure compliance in the future will have revenue resource implications. These require to be addressed through the Local Health Plan process. We recognise that NHS Borders are working to obtain compliance with the regulations and have put in place systems to improve their compliance levels. There is a need to ensure that compliance with the WTR is pursued as a priority. The implications of the WTR should be considered during the planning and implementation of all new initiatives such as the In-patient redesign process. **Priority 1**	The Director of Human Resources will ensure that all legislative requirements are fully considered by Borders Health Board **Responsible Officer:** Director of Human Resources **Implementation Date:** Ongoing

6.3 Action Points raised during our 2004/05 interim audit

Title	Issue Identified	Risk and Recommendation	Management Comments	Follow up at Final Audit 2004/05
Fixed Asset Register	During a review of capital expenditure it was noted that a fixed asset register is not being maintained within the Efinancials ledger system as was intended. This has been due to difficulties experienced with Efinancials. The Efinancials fixed asset module does not automatically update revaluation figures for fixed assets. This is a system problem and is currently being investigated by the software providers, Cedar. Due to these problems the fixed asset register has been maintained on a series of spreadsheets since April 2004. Furthermore, it has become apparent that a significant year end exercise will require to be undertaken to ensure that fixed assets are stated accurately at their current value at the year end.	While we recognise that a fixed asset register is being maintained, the use of spreadsheets for this process presents a number of risks in relation to the integrity of the register, as normal programmed controls may not be in place. Furthermore there is a risk that if appropriate controls are not implemented during the year end exercise that fixed assets will be materially misstated in the financial statements. We recommend that NHS Borders encourages Cedar to address the software problem within the fixed asset module as soon as possible. In the meantime, controls should be put in place to ensure that the processing of revalued assets and indexation is performed efficiently and effectively and that the members of staff involved in the process are appropriately briefed. **Priority 1**	NHS Borders, in conjunction with the e-financials user consortium, have developed a specification and passed this on to Cedar. In the meantime, appropriate compensating controls will be established. **Responsible Officer:** Assistant Director of Finance (Planning and Control) **Implementation Date:** 31 May 2005	Work is continuing on the development of the eFinancials system. Our original recommendation stands. **Management Comments:** Efinancials is now fully updated for the revaluation exercise as at 31.03.04. This was done as a manual exercise and will be done again manually for revaluation at March 05. Discussions are ongoing with Efinancials as part of the consortium to make this an automatic procedure**.**