

# **Report to Forth Valley Health Board on the 2004/2005 Audit**

## Contents

	Page
<b>Executive Summary</b>	<b>1</b>
<b>Section:</b>	
<b>1. Introduction</b>	<b>4</b>
<b>2. Risk Assessment</b>	<b>5</b>
<b>3. Financial Statements</b>	<b>9</b>
<b>4. Performance Management</b>	<b>13</b>
<b>5. Governance</b>	<b>17</b>
<b>6. Looking Forward</b>	<b>21</b>
<b>Appendices:</b>	
<b>A. Key Risk Areas and Planned Management Action</b>	<b>22</b>

## Executive Summary

### Introduction

As part of our responsibilities as external auditors for Forth Valley Health Board we are required to submit to you, at the conclusion of each year's audit, an annual report on the key findings from our audit. This report summarises our conclusions and is set out in four sections covering:

- **Risk Assessment** - risks highlighted in our audit planning framework and how these have progressed in the year.
- **Financial Statements** — the findings of our financial statements audit including performance against targets and our opinion on the statement on internal control.
- **Performance Management** —our assessment of the way in which Forth Valley Health Board secures value for money in distinct areas.
- **Governance** —our assessment of the Board's clinical governance, staff governance and corporate governance arrangements.

### Risk Assessment

- We identified a number of significant risks at the outset of the audit including:
  - the Board's capacity to provide appropriate and safe sustainable services in an environment of changing clinical demands;
  - workforce information is not used to support major planning, budgeting and service reconfiguration decisions and difficulty in retaining and recruiting staff;
  - the Board's ability to achieve financial targets set out in the financial recovery plan due to additional recurring expenditure and reliance on non-recurring income;
  - increasing pressures on IM&T due to a number of new developments arising from the new GMS contract and the impact of the Data Protection and Freedom of Information Acts; and
  - service delivery is compromised and operational targets not achieved due to changes in accountability and line management.
- The Board has taken a number of steps to address these matters including the establishment of a Service Design Board and the implementation of a Clinical Governance Strategy in March 2005. There is, however, still some progress to be made in developing single system working in NHS Forth Valley.
- The Board remains exposed to significant risks particularly achieving financial balance in the face of significant recurring cost pressures such as nGMS, Consultant Contract and Agenda for Change. There are also the challenges in developing a new approach to healthcare provision based in communities, as envisaged in the Kerr Report, while ensuring that the Board has the right number of staff with the appropriate skills mix.

### Financial Statements

- We have given an unqualified opinion on the financial statements of Forth Valley Health Board for 2004/2005, including the regularity of income and expenditure and the Board's Statement on Internal Control.
- Forth Valley Health Board's cumulative net resource outturn showed a surplus of £410,000 and an in-year surplus of £18,000. This is consistent with the position forecast at the start of the year. The Board also achieved its capital resource limit and cash limit requirements.
- The Board's financial plan for 2004/2005 identified a number of risks in maintaining recurring financial balance including additional recurring costs (e.g. nGMS, Agenda for Change, Consultant Contract) and reliance on non-recurring income in the short to medium term. There is a significant risk to the Board's target of achieving recurring balance by 2008/2009 due to your reliance on non-recurring funding to achieve in-year balance. The financial plan also discloses that, stripping out the use of non-recurring income, the Board's underlying funding gap to 2004/2005 is £6 million. The financial plan for 2005/2006, however, discloses that the underlying funding gap will be reduced to £4 million.
- Long term financial balance must be linked to the Board's Healthcare Strategy to ensure this is sustainable.

### Performance Management

- To be able to fully support effective workforce management the Board needs to have in place comprehensive and effective information systems. Although we have yet to formally report on workforce management we have identified a number of risks and have discussed them with management. They include a lack of reliable and accurate workforce information for use in planning workforce requirements. This was also a key finding from our work on Staff Governance where we reported that the Board were unable to produce all the mandatory statistics required.
- Effective risk management arrangements are a key control in ensuring that health boards plan, deploy and evaluate the use of resources. Our review of the Board's risk management arrangements identified a number of areas where the Board needs to improve and develop current arrangements, including producing a single corporate risk register.
- The Board has a robust performance framework in place with regular reports to the Board and operating division committees. The Acute Division year end report noted that there is steady progress in meeting waiting times targets.
- Local and national performance audit studies highlighted a number of areas of good practice that demonstrate that the Board is securing value for money in the use of its resources. These include:
  - *Using medicines in hospital:* the Board's focus on performance management, the high profile given to medicines management, management of antibiotics through guidelines and ongoing audit.
  - *Overview of delayed discharges:* the Board outperformed the national target set for the reduction in delayed discharges for the year to April 2004.

## Governance

- A Clinical Governance Committee was established in April 2004 and a Clinical Governance Strategy was approved by the Board in March 2005. The Clinical Governance Committee submitted its annual report for 2004/2005 to the Board in July 2005.
- Forth Valley Health Board was established as a single entity on 1 April 2004. The Board, however, did not revise its management structure to incorporate single system working during 2004/2005. The Chief Executive's review of the management structure was approved by the Board in April 2005. Consequently it is our view that the management structure necessary to support single system working in NHS Forth Valley was not fully in place during 2004/2005.
- In other areas we concluded that adequate arrangements have been put in place to satisfy the Board's corporate governance arrangements. Examples include:
  - successful implementation of the new GMS contract; and
  - the Board has robust arrangements in place for monitoring and reporting on the Board's financial position.
- In relation to staff governance, progress was made in delivering the agreed action plan for 2004/2005. The self-assessment process was robust and the 2005/2006 action plan is credible and owned. In common with other Boards, Forth Valley was unable to provide all the mandatory statistics required by the NHS Scotland Staff Governance Standard.
- We will continue to monitor governance developments in 2005/2006.

## Looking Forward

- Forth Valley Health Board faces significant challenges in 2005/2006 and the longer term, particularly in relation to meeting its financial recovery plan targets. Given the significant additional recurring cost pressures including nGMS, Agenda for Change, Consultant Contract, and reliance on non-recurring funding there is a significant risk that the Board will not continue to achieve financial balance. The planned reduction in the funding gap to £4 million in 2005/2006 is an indication that the Board is progressing towards achieving its aim of financial balance by 2008/2009.
- Other significant challenges include:
  - resourcing and sustaining healthcare services during a period of major change in the provision of services, particularly a development of a new acute hospital;
  - implementation of the PPP process for the Clackmannan and acute hospital projects which have successfully passed the initial Key Stage Reviews part of the process;
  - addressing the challenges in the Kerr Report and developing new community based models of care through Community Health Partnerships (CHPs); and
  - lack of accurate and reliable workforce information to support informed decisions on future workforce planning.
- These areas, and the controls put in place by management to address the issues, will be subject to audit review during 2005/2006.

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## 1. Introduction

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- 1.1 This report summarises the outcomes from our 2004/2005 audit of Forth Valley Health Board. The scope of the audit was set out in our Audit Planning Framework, which was submitted to the Audit Committee on 28 January 2005. The plan set out our views on the key business risks facing the Board and described the work we planned to carry out on:
- financial statements;
  - performance; and
  - governance.
- 1.2 This report completes our audit by giving you an overview of the work we carried out and, more importantly, our key findings. We have structured the main body of the report to cover the three topics listed above as well as our view on risks. Inevitably, there is overlap between the different sections of the report. For example, our view of the risks you face in delivering sustainable services are informed by our related work on performance and governance. This means that consistent themes emerge throughout the report and we have summarised these in the final section and appendix A.
- 1.3 We have issued a range of reports this year covering our governance, performance and financial statements responsibilities in terms of Audit Scotland's Code of Audit Practice. Managers have committed to carry out the recommendations, which are directed at higher areas of risk. Appendix A sets out the key areas highlighted in this report and action planned by the Board to manage these risks. Other higher risk areas and related planned management actions have previously been reported to the Board in other reports we have issued.
- 1.4 This is the fourth year of a five year audit appointment and Forth Valley Health Board's first year of operation as a single health system. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our audit work.

## 2. Risk Assessment

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### Introduction

2.1 In our audit plan, we identified five main areas of risk for Forth Valley Health Board. We also described longer term planning issues which will impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status. We also comment on the longer term planning issues.

### Sustainable Health Care Services

2.2 We recognised that the largest risk factor for Forth Valley Health Board is the ability of the Board to provide appropriate, safe sustainable services in an environment of changing clinical demands. Significant factors impacting on this risk include the proposed major changes in the provision of acute and primary care and the increases in the number of older people in the local area.

2.3 The Forth Valley Local Health Plan incorporates the Healthcare Strategy for the Board. It is based on a vision focused on three components:

- the provision of high quality acute services from a new hospital at Larbert;
- enhanced primary care and community services delivering a wide range of services locally; and
- implementing a more dynamic model for community hospitals.

2.4 A number of short and medium term changes are being made to service provision. Examples include the provision of certain services (eg. maternity services) from a single hospital site. These changes will allow the Board time to prepare services for the move to new hospital in Larbert planned for 2009. Also, by concentrating services in either Falkirk or Stirling the Board will continue to improve waiting times and provide higher quality care. The new hospital at Larbert is being procured using the PPP approach and this went out to tender in May 2005.

2.5 The Clackmannanshire Community Health Services Project for the building of a new community hospital in Clackmannan has progressed during the year and the Intention to Negotiate documentation has been issued. The project will serve as a model for future community hospital developments in Forth Valley.

2.6 The Clackmannan and acute hospital projects have successfully negotiated the initial Key Stage Reviews part of the PPP process. **(Risk Area 1)**

### Financial Position

2.7 We commented on the risk to the Board due to financial pressures such as Agenda for Change and the new GMS contract.

2.8 At the end of the financial year, your net resource outturn showed a cumulative surplus of £410,000 over the revenue resource limit (RRL). This was made up of an in-year surplus of £18,000 for 2004/2005 and a surplus brought forward from 2003/2004 of £392,000. The Financial Plan, however, identified an underlying funding gap of £6 million for 2004/2005, that would be met using non recurring income, although the 2005/2006 plan discloses that the gap will be reduced to £4 million. While the Board's

financial plan aims to achieve recurring in-year balance by 2008/2009 there is a risk that this target may not be achieved because of continuing reliance on non-recurring funding and emerging cost pressures. **(Risk Area 2)**

## Workforce Management

2.9 We identified workforce management as a significant risk and highlighted the challenges facing the Board in recruiting and retaining staff in key specialist areas. We carried out a local study on workforce planning. Our fieldwork is complete and a draft report will be issued to management in due course for comment. The preliminary findings from our review are summarised at paragraphs 4.6 to 4.8. The key issue arising from the study was the lack of accurate and reliable workforce information upon which to make informed decisions on future workforce planning.

## Organisational Change

2.10 In our audit plan we noted that the current management structure within Forth Valley Health Board was under review including the development of Community Health Partnerships (CHPs). A major risk was that service delivery would be compromised and operational targets not achieved due to changes in accountability and line management.

2.11 The Chief Executive presented a paper to the Board on 19 April 2005 reporting progress that had been made in relation to single system working. The paper set out a revised management structure which took account of the introduction of CHPs from 1 April 2005. The report stated that “the principle adopted was that all Executives would be expected to adapt and adjust their roles in line with corporate need”. The Board approved the revised management structure. The proposed changes are to be phased in over a number of months but it is anticipated that they will be fully implemented by September 2005.

2.12 Consequently, it is our view that a management structure to support single system working was not in place during 2004/2005.

## Information Management and Technology (IM&T)

2.13 As highlighted in our plan we noted the increasing pressures on the Board to invest more in IM&T as a result of significant developments including support for the National eHealth Strategy and implementation of PECOS (automated ordering and purchasing system). Further, there is the additional work arising from the new GMS contract, procedures for compliance with the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002.

2.14 Our governance work on IM&T addressed what we identified as the major risks and our findings are summarised at paragraph 5.12. In particular the Board needs to ensure a consistent approach to IM&T business continuity planning throughout NHS Forth Valley. Further, IM&T disaster recovery plans have not been established throughout the organisation. This still remains an area of risk for the Board.

## Longer Term Planning Issues

2.15 In our plan, we highlighted four longer term planning issues that would have an impact on the Board in future years. These are summarised overleaf:



- shared support services;
- Professor David Kerr's national review of healthcare services;
- major changes in the provision of services i.e. Clackmannan Community Hospital and the new acute hospital at Larbert; and
- e-Procurement.

2.16 We have been monitoring developments in these areas during the 2004/2005 audit as summarised in the following paragraphs.

### Shared Support Services

2.17 The national Shared Support Services project covers the creation of national shared services for the transactional elements of finance, procurement, payroll services, internal audit and practitioner services payments. The project is expected to contribute recurring savings of £10 million per annum to the Efficient Government Initiative.

2.18 The shared services are to be organised on a 'hub and spoke basis' with two hubs (payroll and finance & procurement functions) and twelve spokes (dealing with ordering, accounts receivable and practitioner payments). The shared services project will also reduce the number of staff significantly although a national commitment has been given that there will be no compulsory redundancies. That said, there are a number of local risks post-implementation including:

- potential difficulties in recruiting staff locally and redeploying others;
- the need to ensure that savings generated from single system working locally are not double counted in the national savings target of £10 million;
- the need to assess whether management accounting arrangements will be sufficient to provide support to local managers who are accountable for local budgets; and
- assurance that local accountability and local financial control will be maintained.

2.19 Over the coming year we will maintain a watching brief to see how national developments impact locally. **(Risk Areas 3 & 4)**

### The Kerr Review

2.20 The Kerr report '*Building a better health service fit for the future*' outlines the proposals for the future shape of NHSScotland over the next twenty years. The report recommends that all health boards establish a systematic approach to caring for the most vulnerable with long-term conditions. The report sees a new healthcare model being adopted with a move away from acute hospital based services to community based health provision. This will be achieved through local hospitals, health centres and CHPs.

2.21 The key challenges for Forth Valley Health Board Health Board and other NHS boards are to deliver tangible service improvements and better healthcare in community settings over the medium to long term. We will maintain a watching brief over the next year to track the Board's plans for implementing the key themes in the Kerr report.

## Major changes in the provision of services

- 2.22 Our risk assessment identified major changes in the provision of services i.e. Clackmannan Community Hospital which will serve as model for primary care services, interim transitional arrangements for acute services and, the construction of the new acute hospital which is planned to open in 2009. Funding for these projects will be secured through the Public and Private Partnership mechanism and the Board have yet to seek an initial view from us on the accounting treatment for these projects. **(Risk Area 5)**
- 2.23 The Scottish Executive guidance on PFI/PPP states that “the external auditors should be consulted with regard to the accounting treatment of relevant projects prior to issue of the intention to negotiate and during contract negotiations”.

## e-Procurement

- 2.24 Our audit plan noted that we would track the implementation of the national initiative on e-procurement and monitor its impact on internal control.
- 2.25 We are advised that the Board has been using eProcurement Scotland since March 2004 and that 4% of orders during 2004/2005 were placed via the system. The Board have made a concerted effort to increase use of the system and they anticipate that by July 2005 approximately 60% of expenditure on goods and services will be ordered via eProcurement.

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## 3. Financial Statements

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### Introduction

3.1 This section sets out our responsibilities under Code of Audit Practice and identifies relevant matters which we wish to bring to your attention.

### Our Responsibilities

3.2 We audit the financial statements and give an opinion on:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the regularity of the expenditure and receipts.

We also review the statement on internal control by:

- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the statement are consistent with our knowledge of the Board.

### The Financial Statements

3.3 Our comments on the financial statements of Forth Valley Health Board for 2004/2005 cover four key areas. These are:

- the independent auditor's report on the financial statements;
- the Board's financial position;
- the issues arising from the audit; and
- the statement on internal control.

### The Independent Auditor's Report on the Financial Statements

3.4 We have given an unqualified opinion on the financial statements of Forth Valley Health Board for 2004/2005.

### The Board's Financial Position

3.5 In common with other health boards in Scotland, you are set financial targets by the SEHD:

- to remain within the revenue resource limit (RRL),
- to remain within the capital resource limit (CRL); and
- to remain within the cash requirement.

Your performance against these three financial targets in 2004/2005 is shown below.

Table 3.1  
2004/2005 Financial Targets Performance

Financial Target	Target £000	Actual £000	Variance £000
Revenue Resource Limit	341,165	340,755	410
Capital Resource Limit	5,180	4,951	229
Cash Requirement	325,839	325,839	0

- 3.6 The use of the RRL has weaknesses as an absolute measure of your performance on financial management as it is not fixed for the financial year. In 2004/2005 there were 89 changes to Forth Valley Health Board's RRL as notified by the SEHD. These required senior officers to adjust financial plans and outturn projections. The final 2004/2005 RRL and CRL targets were not confirmed until 26 May 2005.
- 3.7 The Board makes use of non-recurring income to support its financial position, in particular as bridging support, until recurring savings feed through from service redesign. Stripping out the non-recurring income shows that the Board has an underlying funding gap of around £6 million although the financial plan for 2005/2006 discloses the gap will be reduced to £4 million.

Table 3.2  
2004/2005 Underlying Recurring Funding Gap

Description	£ million
Cumulative Surplus	0.400
Non-recurring Income applied against recurring expenditure	(6.400)
<b>Estimated Funding Gap</b>	<b>6.000</b>

Source: minimum data set provided by Forth Valley Health Board finance staff.

- 3.8 The use of capital receipts has been used to support revenue expenditure via the mechanism of capital to revenue transfers. This has supported spending in three areas:
- non-added value capital items;
  - advisor costs/project teams for potential PPP/PFI schemes; and
  - bridging finance following withdrawal of national brokerage arrangement.

This facility will no longer be available to health boards from 1 April 2006 and this poses a risk that the Board will not achieve recurring in-year balance by 2008/2009. **(Risk Area 6)**

## Bellsdyke Hospital

3.9 The Bellsdyke Hospital development was valued at approximately £41 million in the valuer's report at 31 March 2004. The valuer reduced the valuation by £16 million to £25 million at 31 March 2005 as a result of more detailed information in respect of planning permissions being available. If this information had been available at 31 March 2004, and the valuation at that date had been reduced accordingly, then the cost of capital charge would have been reduced by £0.5 million with a consequent positive effect on the Board's financial position at 31 March 2005.

## The Issues Arising from the Audit

3.10 A number of presentational and accounting issues were identified during the audit but these were resolved in discussion with senior financial officials. In our SAS 610 letter (*communication of audit matters to those charges with governance*) submitted to the Audit Committee we suggested four changes to the financial statements, where management have chosen not to reflect these suggestions in 2004/2005:

- **Cost of Capital:** the cost of capital for fixed assets has been calculated on the basis of closing balances at 31 March 2005. The rationale for this approach was to reflect the fact that most capital expenditure was incurred in the last three months of the financial year. The Resource Accounting Manual (RAM) indicates that the cost of cost of capital charge should be based on opening values adjusted pro-rata for additional assets less impairments, disposals and depreciation. The guidance gives scope in for interpretation in line with the Board's methodology. The alternative method of calculation using the average of the opening and closing balances would incur an additional charge of £33,000. Finance staff have agreed to review the methodology for calculating the cost of capital in 2005/2006.
- **Prescribing accrual:** the accrual for prescribing expenditure is overstated by approximately £251,000. Finance staff explained that when preparing the accounts in late April 2005 the latest information available to them at that time was used to estimate prescribing expenditure. This approach is consistent with previous years' accounting treatment. The actual figures, when received, were not considered by management to be significant enough to justify an amendment to the accounts.
- **Asset reconciliation:** we identified a difference between the revaluation reserve figure per the asset register and the accounts. We calculated the difference to be of the order of £75,000. This amount is immaterial in the overall context of the accounts and no adjustment has been made. Finance staff have agreed to review the matter for next year and make amendments, as appropriate.
- **Camelon Health Centre:** the asset valuation exercise carried out in 2004/2005 identified that the health centre's site services value reduced from £70,000 to £36,000 over the year. The revaluation reserve currently stands at £2,000 and is insufficient to offset the £34,000 diminution in the value of the health centre. Given that the amount is not material no adjustment has been made to the accounts in 2004/2005. Finance staff have, however, agreed to review this matter in 2005/2006.

3.11 Further, the timing of the Unified Board Accounts Manual, and the requirement to merge the financial statements of predecessor bodies added significant risks to the timely production of accurate financial statements. The annual accounts template was not received until 16 May 2005 and consequently there were delays in the availability of working papers.

## Statement on Internal Control

3.12 The statement on internal control provided by the Accountable Officer reflected the main findings from both external and internal audit work. The statement refers to areas of internal control that need to be strengthened, including:

- risk management arrangements were not fully in place throughout the year. The risk management strategy was not approved by the Board until March 2005 and a single risk register had not been developed. Plans are being progressed to ensure that a single risk register is in place by September 2005;
- the clinical governance strategy was not approved by the Board until March 2005. The annual report for 2004/2005 was submitted to the Board in July 2005;
- the information, management and technology strategy was not approved by the Board until March 2005. In addition the Board has not established a clear organisational structure or appointed a designated head of IM&T; and
- implementation of the validated action plan resulting from the NHSScotland Staff governance standard.

We will monitor progress on these issues during 2005/2006 to ensure that Forth Valley Health Board continues to develop its internal control framework across the whole system.

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## 4. Performance Management

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### Introduction

4.1 This section covers our assessment of the way in which Forth Valley Health Board secures value for money in the use of its resources. This year we focussed on four main areas:

- corporate risk management arrangements
- workforce planning
- performance management
- Joint Future
- National studies

4.2 Accountable officers have a duty to ensure arrangements are in place to secure Best Value. Draft guidance issued in August 2003 provided accountable officers with a framework to develop Best Value, although allowed them discretion to adopt an alternative approach. The Board has provided evidence on how Best Value principles have been applied and have indicated that this will continue to develop. We intend to focus on this area as part of our audit in 2005/2006. **(Risk Area 7)**

### Corporate Risk Management Arrangements

4.3 Effective risk management arrangements are a key control in ensuring that health boards plan, deploy and evaluate the use of resources. The Board approved its risk management strategy at its meeting in March 2005 and consequently formal arrangements were not in place during 2004/2005.

4.4 Our review identified a number of areas where the Board is exposed to risk:

- Forth Valley does not have a specific framework for reporting risk management information to the Board and consequently there is a risk that the Board may be unaware of significant risks arising within the organisation;
- there is no single corporate risk register, although plans are in progress to implement a single register by September 2005, and consequently there is a risk of inconsistency in prioritising risks; and
- high level corporate objectives have not been fed into the corporate risk register and as a result the risk management strategy may not focus on achieving Forth Valley Health Board's corporate objectives.

4.5 We concluded that Forth Valley Health Board has taken significant steps in implementing and embedding risk management arrangements throughout the organisation. However, there is still scope for improvement, as NHS Forth Valley continues to develop single system working.

## Workforce Planning

- 4.6 The Scottish Executive's report 'Working for Health —The Workforce Development Action Plan for NHSScotland' states that '*workforce development will act as a key driver of the reform agenda by developing a workforce which can embrace the changes required to sustain and improve services*'.
- 4.7 We intend to report on our local workforce planning study shortly but our preliminary findings highlighted some examples of good practice such as a dedicated workforce development manager to oversee workforce planning. We also identified some areas where Forth Valley Health Board is exposed to risk, including:
- information on workforce and staffing in Forth Valley Health Board is derived from a number of sources, including human resource departments in divisions, and finance. There is no single system currently available for supplying workforce information across Forth Valley Health Board which makes it difficult to produce information on a consistent basis.
  - Forth Valley Health Board does not currently have a formal workforce plan although a baseline plan was produced in 2004. A Workforce Design and Information Group has recently been established and part of its remit is "to develop a Forth Valley Health Board approach to workforce information .....and a co-ordinated approach to workforce planning and development which integrates service (re)design....." The Group has not yet identified a methodology for progressing workforce planning nor made any recommendations for improvement and development.
- 4.8 The development of the clinical strategy and the major changes in the provision of services will require the Board to take key decisions over the next few years. Having robust and reliable information to inform workforce planning is critical in ensuring that these decisions are based on sound evidence.

## Performance Management

- 4.9 The Board's performance can be measured through a number of processes, including waiting times targets, the SEHD Performance Assessment Framework, the Accountability Review and the local performance framework. The Board and its committees need to receive the appropriate balance of information to inform strategic decisions, hold management to account and agree and monitor remedial action.
- 4.10 The Board has a robust performance management framework in place and the personal objectives of executive directors are aligned to the six key areas of performance derived from the Local Health Plan. Reports to the operating division committees include monthly highlight reports on progress against priority objectives, quarterly exception reports on progress against divisional objectives and regular updates on external performance assessments such as QIS reviews.
- 4.11 Achievement of waiting times and delayed discharge targets are important areas at a local and national level. The need to shorten waiting times is a recurring theme in the Kerr report.



- 4.12 The performance report for the Acute Division for the period to March 2005 noted that steady progress was being made in meeting waiting times targets with 52 or 2% of patients waiting over 6 months for treatment within Forth Valley Health Board. It also disclosed that at March 2005, 92 or 0.86% of outpatients are waiting over 26 weeks for their initial appointment.
- 4.13 Forth Valley Health Board has established a Waiting Times Strategy Group, with links to the Service Design Board, and this Group is currently developing a strategy to meet the December 2005 target date.

### Joint Future

- 4.14 We identified the risk that joint working is not progressing and consequently this may have an adverse impact on mental health services and services for older people. We planned to rely on internal audit's work in this regard but at the date of this report the final report had not been issued.

### National Studies

- 4.15 In 2004/2005, there were five national study topics. Some studies were reported locally by either our own staff or by colleagues in Audit Scotland's Performance Audit Group (PAG) while others were commissioned from PAG by the Auditor General and reported nationally:
- Staff governance (local report produced by Audit Services);
  - Using medicines in hospital (local report produced by Audit Scotland's PAG);
  - A review of bowel cancer services (national report);
  - An overview of delayed discharges in Scotland (national report); and
  - Waste Management follow-up report (national report).
- 4.16 Staff governance was covered as part of our work on governance within Forth Valley Health Board and we have summarised our conclusions at paragraph 5.9.

### Using medicines in hospital

- 4.17 PAG carried out a local study on using medicines in hospital within the Acute Sector of Forth Valley Health Board. A number of areas of good practice were identified. Examples included a focus on performance management, the high profile given to medicines management, management of antibiotics through guidelines and ongoing audit, the roll out of redesign of medicines supply and extended roles for pharmacists and technicians.
- 4.18 Areas where further improvements could be made were also identified including delays in some patients receiving medicines on discharge, redesign is not in place in all clinical areas, some areas not covered by a pharmacist due to resources and vacancies, and delays in prescribing.
- 4.19 With our colleagues in PAG we will monitor progress in implementing audit recommendations in the agreed action plan at a future date.

## A review of bowel cancer services

- 4.20 This national study reviewed how health bodies are implementing the ‘*Cancer in Scotland*’ strategy and examined how bowel cancer services in Scotland are performing against clinical standards and national waiting times targets. There was no specific mention of Forth Valley in the national report either in terms of good practice or areas for improvement.
- 4.21 The key message from the national report is that ‘*high quality bowel cancer care needs good partnership working between GPs and specialist services, effective communication and co-ordination, and efficient use of diagnostic resources*’.

## An overview of delayed discharges in Scotland

- 4.22 The national report highlighted that Forth Valley Health Board exceeded the target set by the local partnership for a reduction in delayed discharges in 2003/2004. Our review of performance monitoring highlighted that for the year to April 2005, Forth Valley Health Board failed to achieve its target as illustrated in the table below.

Table 4.1  
Delayed discharges; performance against target 2003/2004 and 2004/2005

Delayed discharges			
2003/2004		2004/2005	
Target	Actual	Target	Actual
100	98	78	82

- 4.23 Factors contributing to the non achievement of the target in 2004/2005 included the constraints of care home capacity and the need of patients/families to pay top up fees. This is consistent with the key message in the national report. The message is that delayed discharges are a product of complex system instructions; dealing with one part of the system can have unintended consequences elsewhere. The Board needs to secure the support of its partners to achieve improvements in this area.

## Waste Management follow-up report

- 4.24 The follow up audit of waste management looked at progress in key areas identified in the 2001 baseline report. The key message from the national report is that the “safe handling and disposal of hospital waste reduces health and safety risks for both patients and staff, and contributes to a better environment for the whole community”.
- 4.25 There were instances reported in Forth Valley where patient and staff safety was compromised because of poor storage of clinical waste, either being stored in an area where the public could access or in bins that were inadequately secured.
- 4.26 The report highlighted that there is still scope for improvement as Forth Valley Health Board does not currently recycle paper, cardboard, glass, batteries or toner. The report noted that there may be some obstacles to health boards improving recycling including cost.

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## 5. Governance

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### Introduction

5.1 This section sets out our main findings arising from our review of your corporate governance as it relates to:

- clinical governance;
- staff governance; and
- corporate governance (including financial aspects).

5.2 Our findings are set out below along with a summary of findings from our follow-up work on previous audit recommendations.

### Clinical Governance

5.3 A Clinical Governance Committee was established in April 2004 to oversee clinical governance and to report directly to the Board.

5.4 The main duties of the clinical governance committee are as follows:

- *Systems assurance* - to ensure that clinical governance mechanisms are in place and effective throughout the local NHS system; and
- *Public Health governance* - to ensure that the principles and standards of public health governance are applied to the activities of the local NHS system.

5.5 The Clinical Governance Strategy for Forth Valley was approved by the Board in March 2005. The Strategy includes a set of key aims to 'ensure that all the necessary activities and components of Clinical Governance are embraced and addressed.' The Strategy also states that a set of objectives will be developed to meet each of these aims and each objective will have a plan of action with measurable outcomes.

5.6 The Clinical Governance Committee submitted its annual report to the Board in July 2005. The report stated that systems had been established to give 'reasonable but not absolute assurance' to the Board that arrangements are in place for the delivery of effective clinical governance.

### Compliance with the NHSScotland Staff Governance Standard

5.7 The NHSScotland Staff Governance Standard introduced the third component of governance, combining with financial and clinical governance to complete the governance framework within which the Board is required to operate. The aim of this standard is to improve the way staff are treated in NHSScotland and to improve accountability for making this happen.

5.8 Every Board is required to use a Self Assessment Audit Tool (SAAT) and information gained from a staff survey, to review and update their action plans to achieve the Standard. As part of our responsibilities we review the Board's SAAT.

- 5.9 Overall, we concluded that Forth Valley Health Board has made progress in delivering the agreed action plan for 2004/2005, the self-assessment has been robust and the 2005/2006 action plan is credible and owned.
- 5.10 The agreed actions from 2005/06 action plan identified a number of key areas for improvement including:
- Forth Valley Health Board is unable to fully provide the mandatory statistics required by the Staff Governance Standard;
  - development of a Forth Valley wide PDP policy;
  - development of Forth Valley wide Recruitment and Selection Guidelines & Procedures; and
  - development of a Forth Valley wide Health & Safety Strategy.
- 5.11 We will monitor the Board's progress in delivering the 2005/2006 action plan during financial year ending 31 March 2006.

### **Corporate Governance**

- 5.12 Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct and your financial position. We have made comment on your financial position at paragraphs 3.5 to 3.9.
- 5.13 The Board did not revise its management structure during 2004/2005 to take account of single system working. The Chief Executive presented a paper to the Board on 19 April 2005 reporting progress that had been made in relation to single system working. The paper set out a revised management structure which took account of the introduction of CHPs from 1 April 2005. The report stated that "the principle adopted was that all Executives would be expected to adapt and adjust their roles in line with corporate need". The Board approved the revised management structure. The proposed changes are to be phased in over a number of months but it is anticipated that they will be fully implemented by September 2005. Consequently, the delay in implementation meant that the management structure to support single system working was not in place during 2004/2005. **(Risk Area 8)**
- 5.14 We also looked at specific areas of risk to see what governance arrangements were in place to manage them. We relied on the work of internal audit to give us assurance in some of these areas. Our findings in these higher risk areas are summarised below.

#### ***Information Management and Technology (IM&T)***

- 5.15 Our audit work covered a number of aspects of the IM&T control environment such as business continuity and planning, security and the PECOS system. Overall we concluded that arrangements for the delivery of IM&T are adequate although we identified several areas where the Board is exposed to risk including:
- risk management and business continuity planning processes have not been established across Forth Valley Health Board;
  - IM&T contingency and disaster recovery plans have not been established throughout the organisation; and

- the Board has not established a clear organisational structure or appointed a designated head of IM&T.

#### ***Ordering, certification and payment of creditors***

- 5.16 As part of our risk based assessment conducted during our initial planning stage we identified the ordering, certification and payment of creditors system as a high risk system. In summary we concluded that internal controls were adequate although the Board was exposed to some risks. Examples included officers are authorising invoices above their prescribed limit and insufficient checks carried out to confirm the validity of new suppliers.

#### ***Fixed assets***

- 5.17 We reviewed the current arrangements for maintaining and updating the fixed asset system. The main finding from our review was the need to adopt single system working and to nominate one officer with responsibility for overseeing and maintaining the fixed asset system.

#### ***BACSTEL-IP***

- 5.18 Our audit work focused on the Board's preparedness for the mandatory changeover from the existing Bank Automated Clearing Service (BACS) to the new BACSTEL-IP system by the end of December 2005.
- 5.19 We concluded that plans were in place to changeover to the new BACSTEL-IP system although the Board is dependent on other parties to achieve the deadline date. We have advised management, therefore, to obtain assurances from its IT services contractor that the upgrade to BACSTEL-IP will be completed in time for the December 2005 deadline.

#### ***Agenda for Change***

- 5.20 Currently, there is an ongoing exercise to identify the accrual of costs for the Agenda for Change initiative for the period October 2004 to March 2005. A national methodology was developed to determine this accrual. This methodology was used by the Board to derive a figure of £2.51 million. The Accountable Officer has provided formal assurances, in a letter of representation, that this methodology best reflects anticipated costs. The Board will experience the full effect of AfC in 2005/06 and given the significant financial implications, the Board will need to ensure that full implementation is tightly monitored and managed.

#### ***Consultant Contract***

- 5.21 The new Consultant Contract was implemented on 1 April 2004 and backdated to 1 April 2003. We took assurance from internal audit's work that the Consultant Contract was implemented effectively and in accordance with circular PMT 16. Forth Valley Health Board along with all other Boards will be required to demonstrate, in the near future, that the substantial investment in the health economy will produce tangible and visible benefits through pay modernisation.

### ***Family Health Services***

5.22 The new GMS contract was introduced on 1 April 2004 and we identified in our Audit Planning Framework that there were significant risks to Forth Valley Health Board's implementation of an effective and robust control framework for this new system. We relied on internal audit to provide assurance on the implementation of the framework. We also planned to rely on Internal Audit's review of the controls over the Out of Hours Service and arrangements for making quality payments. Internal Audit's work on these matters concluded that internal control arrangements for these matters were adequate although there were some areas requiring improvement.

### ***Financial Ledger***

5.23 A new financial ledger system (e-Financials) was implemented in April 2004. The implementation of any main financial system can have a significant impact on a number of our responsibilities under the Code of Audit Practice. We planned to place reliance on Internal Audit's work in this area to gain assurances on the effectiveness of the ledger control environment. Internal Audit concluded that the project management of the system followed good practice.

### ***Community Health Partnerships***

5.24 The establishment of CHPs is a key element in developing single system working within a community setting. They are being developed within the context of the '*Partnership for Care*' (2003) initiative and their development is closely linked to other initiatives such as Regional Planning. They also build on the success of Local Health Care Co-operatives (LHCCs) and take forward the Joint Future agenda by promoting greater interaction between health bodies, local authorities and the voluntary sector.

5.25 The Community Health Partnerships (Scotland) Regulations (effective from October 2004) supported by CHP Statutory Guidance required each Health Board to submit a scheme of establishment to Scottish Ministers for approval. Forth Valley Health Board's scheme of establishment has been approved and is based on the three CHPs covering Falkirk, Stirling and Clackmannan.

5.26 We plan to monitor Forth Valley Health Board's progress in implementing its development plan as over the next year. Additionally, we will take assurances from any planned internal audit work on CHPs in 2005/2006 particularly in relation to governance arrangements.

## 6. Looking Forward

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- 6.1 The move to the provision of acute services from the single hospital site and sustaining clinical services during the transitional period is the major challenge for the Board. The building of the new hospital and the Clackmannan Community Hospital project is being funded through the PPP mechanism and we will monitor progress in completing these developments.
- 6.2 We have drawn attention to the lack of a revised management structure to take account of single system working in 2004/2005. A proposed management structure is scheduled to be fully implemented by September 2005 and we will review the impact of this on governance and accountability arrangements during 2005/2006.
- 6.3 The Board is facing a significant challenge in achieving financial balance by 2008/2009 in the context of the significant changes in service delivery. The £2 million reduction in the underlying funding gap is an indication that the Board is making progress towards achieving targets in line with its financial plans. Reliance on non-recurring funding to meet recurring costs continues to be a significant risk.
- 6.4 We have commented on the need for high quality workforce information to improve strategic management and service planning. The development of the clinical strategy and the major changes in the provision of services will require the Board to take key decisions over the next few years. Having robust and reliable information to inform workforce planning is critical in ensuring that these decisions are based on sound evidence.
- 6.5 Accountable Officers have a duty to ensure that arrangements are in place to secure Best Value. The Board has provided evidence on how Best Value principles have been applied and have indicated that this will continue to develop. We intend to focus on this area as part of our audit in 2005/2006.
- 6.6 The Kerr Report '*Building a better health service fit for the future*' places requirements upon boards to implement its recommendations.

## Key Risk Areas & Planned Management Action

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
1	2.6	The Board will fail to complete the building of the Clackmannan Community Hospital and the new acute hospital within the prescribed timetable and costs with the consequent risk to the provision of sustainable services.	The progress regarding the implementation of the Healthcare strategy is reviewed by the NHS Board. To date both projects have successfully completed Key Stage 0 and 1 Reviews. Progress will continue to be monitored.	Project Directors	Ongoing
2	2.8	The Board may not achieve recurring in-year balance by 2008/2009 because of continuing reliance on non-recurring funding and emerging cost pressures.	The Financial Plan for 2005/06 demonstrates an overall improvement of £2m in the underlying position —this is in line with previous plans and demonstrates that plans are on track. A risk assessment of pressures was included in the Financial Plan and is included in the monthly finance report. Recurrent contingency funds are held (£0.9m) to meet pressures that could not have been foreseen at the start of the year.	Director of Finance	Ongoing
3	2.19	Shared Support Services fail to generate local savings and increase local recruitment difficulties.	The Finance Function is currently being re-structured in line with single system: one factor taken account of is the move to national shared services.  A working group has been established to review local implications both from a staffing perspective and from a service/governance perspective —this group will report to both the Area Partnership Forum and the Audit Committee.	Director of Finance	Ongoing



Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
4	2.19	Management accounting arrangements provided by Shared Support Services will be insufficient to provide information and support to local managers.	The Working Group will continue to highlight areas of concern to both the Audit Committee and the national Project Director.  The national Project Director will be invited to an Audit Committee to discuss concerns.	Director of Finance	Ongoing
5	2.22	The Board progresses with PFI projects without seeking external audit's views.	An initial meeting was held with external audit following Business Case approval and a further meeting to review current progress has been arranged. Key milestones for Audit will be agreed at that meeting.	Director of Finance	October 2005
6	3.8	The Board may fail to achieve its financial plan targets in the medium term by relying on capital to revenue transfers which are no longer available from 1 April 2006.	The Financial Plan 2005/06—2010/11 clearly identifies that Capital to Revenue funding ceases in 2005/06 and has included all spend areas previously covered by this source.  This will be further reviewed as part of the 2006/07 Financial Plan process.	Director of Finance	December 2006
7	4.2	Draft guidance on Best Value (BV) has not been implemented and there has been limited development of a local framework. The Board may therefore be unable to demonstrate that it has secured BV.	Best Value is an ongoing process to secure continuous improvement in performance. It is the outcome of this process that is essential and not the process itself.  The Board will continue to develop its approach to Best Value during 2005/06.	Head of Performance Management	March 2006
8	5.13	The revised management structure will not be fully implemented by September 2005.	Progress is monitored at monthly Executive Meetings.	Chief Executive	October 2005

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