

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

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## Executive Summary

### Introduction

As part of our responsibilities as external auditors for Grampian 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:

- **Risk assessment** —risks highlighted in our audit planning framework and how these have been 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 NHS Grampian secures value for money in distinct areas.
- **Governance** —our assessment of the Board's staff, corporate and clinical 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;
  - 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;
  - difficulty in retaining and recruiting staff in a period of change and uncertainty; and
  - 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.
- The Board has taken a number of steps to address these issues including developing a Change and Innovation Plan. This will support service redesign and the development of new ways of providing services within available funding. Other examples of progress are the establishment of an ICT Business Continuity Management project to oversee business continuity and contingency arrangements across Grampian.
- Although the Board's financial outturn was better than originally forecast (a reduction of £2.9 million on planned excess), you remain in a position where activities cannot be funded entirely from the resources allocated by the SEHD. 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 to deliver. This increases the risks attached to service sustainability, which remains in our opinion, the key risk faced by the Board.

## Financial Position

- We have given an unqualified opinion on the financial statements of Grampian Health Board for 2004/2005, including the regularity of income and expenditure and the Board's Statement on Internal Control. We have however provided an explanatory paragraph in relation to the Board exceeding its revenue resource limit for 2004/2005, by £10.8 million.
- The Board used ring-fenced and non-recurring funding, and capital to revenue transfers to support the revenue position in 2004/2005. Some of the ring-fenced funds have to be re-provided for in the following year and their use can mask the underlying in-year funding gap. We have estimated the impact of this and similar practices on NHS Grampian's final outturn showing an underlying shortfall of recurring funding of around £18 million in 2004/2005.
- Although Grampian Health Board has a financial recovery plan to achieve recurring in-year balance by 2006/2007, there remains a risk that the Board will not achieve recurring balance because of the continuing reliance on non-recurring funding. It will be important for the Board to ensure that the underlying assumptions in the recovery plan are robust and there is scope to manage emerging cost pressures. The absence of formal agreement with the SEHD on the financial recovery plan is a risk to the overall achievability of the plan. Agreement is expected to be reached by 31 August 2005.
- Through your Health Plan ('Healthfit') you are focusing on a Change and Innovation Programme to deliver recurring financial benefit and reduce dependence on non-recurring income. This will be achieved through service redesign and cost reduction initiatives such as BPI and reducing agency staff costs. In the meantime, non-recurring income will be used to eliminate the Board's cumulative debt and support revenue expenditure.
- The Board is still exposed to significant risks particularly achieving financial balance in the face of significant additional recurring cost pressures and reliance on capital to revenue transfers. These increase the risk that the Board will not achieve recurring in-year balance by 2006/2007.

## Performance Management

- It is important that the Board has up-to-date workforce management information to inform decision-making and strategic planning. Although we have yet to formally report on workforce management we have identified a number of risks, in particular the lack of reliable and accurate workforce information to support service planning and operational management. This was also a key finding from our work on Staff Governance where we reported that the Board was unable to produce all of the mandatory statistics required by the standards.
- There is scope for improving the use of non-financial information; however we did note that financial information presented to the Performance Governance Committee, and the Board, is sufficient to allow members to discharge their governance responsibilities. Work is currently underway to develop measures and targets for use in the Board's balanced performance framework. These measures and targets will be aligned to corporate objectives and will be used to assess progress in implementing the Local Health Plan, 'Healthfit'.
- A number of areas of good practice were identified in national performance audit studies, providing evidence that the Board is securing value for money in the use of its resources in these areas. These include:
  - *Using medicines in hospital*: an integrated approach to medicines management and a well developed clinical pharmacy service exists in most areas.
  - *A review of bowel cancer services*: the introduction of a single/medical surgical waiting list for diagnostic interventions is in place.
  - *Overview of delayed discharges*: the Board outperformed the national target set for the reduction in delayed discharges for the year to April 2004.
- The Performance Governance Committee has also reported that the Board has achieved its waiting times targets for 2004/2005.

## Governance

- Grampian Health Board was established as a single entity on 1 April 2004 although the Board took a proactive approach to re-organisation to ensure that single system working was embedded by that time. This approach has also involved setting up of three 'shadow' community health partnerships at the start of 2004/2005, well in advance of Community Health Partnership (Scotland) Regulations.
- Having said that the new structures and arrangements established by Grampian Health Board are not yet fully in place to support internal control. In particular, the Board needs to ensure that planned developments in the following areas are fully implemented and effective:
  - clinical governance (paragraph 5.16);
  - workforce management (paragraph 4.7); and
  - performance management (paragraph 4.12).
- In other areas we concluded that adequate arrangements have been put in place to satisfy the Board's corporate governance arrangements. An examples includes successfully implementing the new GMS contract.
- We will continue to monitor developments in governance arrangements during 2005/2006.

## Looking Forward

- NHS Grampian faces significant challenges in 2005/2006 and the longer term, particularly in relation to meeting its financial recovery plan targets. Given the significant cost pressures including nGMS, Agenda for Change and Modernising Medical Careers, there is a significant risk that the Board will not achieve recurring in-year balance by 2006/2007. It is vital that the financial recovery plan is supported by a robust risk analysis and is approved by SEHD.
- Other significant challenges include:
  - delivering the Health Plan to support health improvement and the provision of high quality services, within available resources.
  - resourcing and sustaining healthcare services during a period of redesign and achievement of efficiency savings.
  - achieving recurring efficiency savings to reduce the Board's reliance on non-recurring income and support service redesign.
  - addressing the challenges in the Kerr Report and developing new community based models of care through Community Health Partnerships (CHPs).
- 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 Grampian Health Board. The scope of the audit was set out in our Audit Planning Framework (APF), which was approved by the Audit Committee on 12 April 2005. This 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
  - governance
- 1.2 This report completes our audit by giving 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.
- 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 the higher areas of risk. Appendix A sets out the key risk areas highlighted in this report and action planned by the Board to manage these risks. Other higher risk areas and 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 Grampian 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.

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## 2. Risk Assessment

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### Introduction

2.1 In our audit plan, we identified four main areas of risk for Grampian 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 further on the longer term issues for the Board.

### Sustainable Healthcare Services

2.2 We identified that the single largest risk factor for Grampian Health Board was the ability of the Board to provide appropriate, safe sustainable services in an environment of changing clinical demands.

2.3 NHS Grampian's Health Plan —*Healthfit*—sets out your long-term programme of strategic development for health services. The key actions being taken forward in this plan include: improving access to services; supporting the shift in balance of care from hospital to the community; improving infrastructure to support modern health services and developing your workforce.

2.4 You also recognise that the biggest challenge for NHS Grampian is delivering high quality sustainable health services, within budget, and are seeking to address this through new and innovative ways to provide services within available resources. The Board is therefore planning to re-design services through a Change and Innovation Plan, which has four key objectives:

- to support improved demand management;
- to address clinical resource pressures;
- to assist achievement of financial balance and repay borrowings; and
- to improve patient experience.

2.5 The Change and Innovation Programme prioritises less complex changes that will deliver immediate and shorter term financial benefits. This will be followed by more substantial re-design and a number of projects are progressing to take this programme forward, including implementation of your Older People's Strategy; re-design of geriatric, maternity and diagnostic treatment services; primary care demand management and theatre capacity.

2.6 Service redesign and innovation necessitate longer term cost efficiencies being released into the local health system. However this could pose further challenges for service sustainability in the medium term. The Board will need to maintain adequate levels of service whilst generating cost efficiencies and savings to support ongoing service re-design. We will continue to monitor developments in this area during 2005/2006. **(Risk Area 1)**



## Financial Position

- 2.7 We commented on the risk facing the Board in terms of its financial position, with a cumulative deficit of £13.7 million forecast for 2004/2005. The actual outturn for the year was a cumulative excess of £10.8 million, including a £4.8 million excess brought forward from the previous year. This improved outturn against forecast was due to a capital to revenue transfer (£1.1 million), SEHD funding to cover the loss on disposal of an asset (£800,000), a reduction in deficit brought forward from 2003/2004 (£700,000) and budget savings (£300,000).
- 2.8 Although Grampian Health Board has a financial recovery plan to achieve recurring in-year balance by 2006/2007, there remains a risk that the Board will not achieve recurring balance because of the continuing reliance on non-recurring funding. It will be important for the Board to ensure that the underlying assumptions in the recovery plan are robust and there is scope to manage emerging cost pressures. The absence of formal agreement with the SEHD on the financial recovery plan is a risk to the overall achievability of the plan. **(Risk Area 2)**
- 2.9 The findings of our local review of financial management are summarised at paragraphs 4.3 to 4.5. We will continue to monitor the implementation of the financial recovery plan during 2005/2006 to ensure that it remains on track to achieve financial balance by the planned date, without adversely impacting on health services.

## Workforce Planning

- 2.10 In our audit plan we highlighted workforce planning as being a complex and uncertain undertaking. We carried out a local study on workforce planning, and our fieldwork is now complete. 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 of this report. In our view the lack of accurate and reliable workforce information, to help inform key decisions, remains a significant risk for the Board. **(Risk Area 3)**

## Information Management and Technology (IM&T)

- 2.11 As highlighted in our plan we noted the increasing pressures on the Board to invest more in IM&T as a result of recent significant developments including support for the National eHealth Strategy and implementation of PECOS (automated ordering and purchasing system). Further, there is additional work for the Board arising from the new GMS contract, procedures for compliance with the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002. Senior management highlighted that while there is always pressure to invest more locally in IT, there is also considerable centralised investment in IT for the benefit of Boards.
- 2.12 Our governance work on IM&T addressed what we identified as the major risks and our findings are summarised at paragraph 5.9. In particular, we highlighted that business continuity and contingency arrangements have not kept pace with changing operational and business environments although we note that an ICT business continuity management project has been set up to address this. This remains a key risk for the Board and we will monitor progress in this area in 2005/2006.

## Longer Term Risk Areas

2.13 In our plan, we highlighted five longer term risk areas that would have an impact on the Board in future years:

- shared support services;
- Professor David Kerr's national review of healthcare services;
- community health partnerships (CHPs);
- changes in the provision of acute services; and
- estates reorganisation.

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

### Shared Support Services

2.15 The Chief Executive of NHS in Scotland approved the Outline Business Case for the National Shared Support Services project in January 2005. The project is deemed mandatory and 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.

2.16 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). It is intended that the project will significantly reduce the numbers of staff, although a national commitment has been given that there will be no compulsory redundancies. That said, there are a number of local risks arising from the implementation of the project 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; and
- the need to assess whether management accounting arrangements will be sufficient to provide support to local managers who are accountable for local budgets.

2.17 Over the coming year we will maintain a watching brief to see how national developments impact locally.

### The Kerr Review

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

2.19 The key challenges for Grampian Health Board and other NHS Boards is to deliver tangible service improvements and better healthcare in community settings over the medium to long term. The Board is committed to community based healthcare as set out in its Local Health Plan. 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 through the Local Health Plan. We will also monitor how the Board will reflect the Kerr report in its clinical developments.

### Community Health Partnerships

2.20 The dissolution of Trusts necessitated further re-organisation Scotland wide. NHS Grampian took a proactive approach to this so that at 1 April 2004 single system working was embedded within the newly established unified Grampian Health Board.

2.21 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 and the Joint Future agenda. They aim to promote greater interaction between health bodies, local authorities and the voluntary sector.

2.22 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. NHS Grampian's scheme of establishment has been approved and is based on three CHPs covering Aberdeen City, Aberdeenshire and Moray. A development plan has also been approved to ensure successful implementation of community based healthcare.

2.23 We plan to monitor the Board's progress in implementing its development plan over the next year. Additionally, we will take assurances from any planned internal audit work on CHPs in 2005/2006.

## 3. Financial Statements

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### Introduction

3.1 This section sets out our responsibilities for the financial statements under the 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 Grampian 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
- 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 Grampian Health Board for 2004/2005. We have, however, provided an explanatory paragraph to our opinion on the Board's financial position expressing our concern that the Board does not anticipate achieving recurring balance until 2006/07. The Accountable Officer has provided us with assurance that the Scottish Executive Health Department will ensure that the Board has access to cash throughout the period 2005 to 2007.

3.5 Further, the Board has agreed a budget which plans for the Board to exceed its RRL for 2005/2006 by £8 million. We will continue to monitor your financial position and the achievement of the financial recovery plan.

## The Board's Financial Position

3.6 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 in Table 3.1 below.

*Table 3.1  
2004/2005 Financial Targets Performance £million*

Financial Target	Target	Actual	Variance
Revenue Resource Limit	609.6	620.4	(10.8)
Capital Resource Limit	10.5	10.1	0.4
Cash Requirement	599.2	599.0	0.2

3.7 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 122 changes to the 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.

3.8 The Board used ring-fenced and non-recurring funding, and capital to revenue transfers to support the revenue position in 2004/2005. Some of the ring-fenced funds have to be re-provided for in the following year and their use can mask the underlying in-year funding gap. We have estimated the impact of this and similar practices on NHS Grampian's final outturn, see table 3.2. By stripping these out we can show that the Board had a shortfall of recurring funding of approximately £18 million in 2004/2005.

*Table 3.2  
Underlying Funding Gap 2004/2005*

Description	£ Million
In year outturn—excluding brought forward deficit 2003/2004	5.970
Disposal proceeds (non-recurring)	0.890
Other Capital to Revenue transfers (non-recurring)	7.820
Estimated re-provision of funding required in 2004/2005 (non-recurring)	3.278
<b>Estimated Funding Gap</b>	<b>17.958</b>

- 3.9 The Board's financial recovery plan forecasts recurring in-year balance by 2006/2007 but will be dependent on the use of £28 million of non-recurring resources, between 2005 and 2007, to achieve this. There are a number of assumptions underlying this plan, including that non-recurring funding will be used to repay the accumulated excess and not support recurring commitments. The financial recovery plan has not yet been approved by the SEHD.
- 3.10 The Board must ensure that there is strong financial management to support the achievement of an approved recovery plan and also to take action when there are fluctuations from the assumptions underlying its achievement. We make further comment on financial management at paragraphs 4.3 to 4.5 of this report.
- 3.11 There are also significant financial risks to NHS Grampian over the management of cost pressures such as Agenda for Change, GMS and the achievement of planned asset disposals and capital to revenue transfers. NHS Grampian expects to generate gains of around £26 million over the next three years from asset sales, which will be channelled to support the financial strategy. Officers have identified a number of challenges to achieving the financial plan targets and supporting redesign in the longer term, these include:
- continuing to meet waiting times targets;
  - achieving recurring savings to bring the cost base into line with funding levels, while maintaining adequate levels of service;
  - redesigning services, within acceptable timescales, while convincing the public of the benefits to patients;
  - disposing of excess assets; and
  - releasing financial resources, through efficiencies, to allow service re-design to be progressed.
- 3.12 The Board is still exposed to significant risks particularly achieving financial balance in the face of significant additional recurring cost pressures, and reliance on capital to revenue transfers and asset sales. These increase the risk that the Board will not achieve recurring in-year balance by 2006/2007.

### **The Issues Arising from the Audit**

- 3.13 A number of presentational and accounting issues were identified during the audit but these were mostly resolved in discussion with senior financial officials. In our SAS 610 letter (communication of audit matters to those charged with governance) submitted to the Audit Committee we highlighted a potential change to the financial statements, in relation to your prescribing accrual. The accrual is overstated by approximately £920,000. Finance staff explained that when preparing the accounts in April 2005, the latest information available to them at that time was used to estimate prescribing expenditure. This approach is consistent with the previous years' accounting treatment. Further, the near final outturn figures when subsequently received were not considered material enough to justify an amendment to the accounts. The Board could reduce its cumulative deficit in 2004/2005 to £9.85 million by making the adjustment.

## Statement on Internal Control

3.14 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:

- development of a programme to provide risk awareness for all staff on an ongoing basis;
- performance management arrangements are being further developed using the balanced score card methodology;
- further development of business continuity and information security arrangements operating throughout the Board;
- procurement of an IT web enabled system to facilitate the electronic recording, assessment and reporting of risks and incidents; and
- implementation of the validated action plan resulting from the NHSScotland Staff Governance Standard.

3.15 We will monitor progress on these issues during 2005/2006 to ensure that the 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 of the report covers our assessment of the way in which Grampian Health Board secures value for money in the use of its resources. This year we focused on five main areas:

- the Board's approach to delivering Best Value;
- financial management;
- workforce planning;
- performance management; and
- 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 has indicated that this will continue to develop. Senior management emphasised that the local framework for service delivery reflects Best Value principles and is focused on continuous delivery improvement. We intend to focus on this area, across all our health audits, as part of our audit work in 2005/2006. **(Risk Area 4)**

### Financial Management

4.3 Sound financial management is a key building block of successful, high quality health services. This is because in the NHS, financial management is not just about recording and monitoring income and expenditure, but about planning to meet new developments, knowing how money is spent, whether it is giving good value and how extra investment can be best used to improve services.

4.4 The financial statements show a cumulative deficit of £10.8 million for the year to 31 March 2005. Our review of financial management highlighted a number of areas which expose the Board to increased risks, including:

- the absence of agreement on the Board's financial recovery plan with the SEHD - agreement is expected by 31 August 2005;
- the overall delivery of the financial recovery plan could be affected by lack of progress on service redesign initiatives;
- the planned proceeds from the disposal of assets may not be realised in line with the recovery plan;
- new developments such as nGMS, Modernising Medical Careers and Agenda for Change add significant recurring costs within the health system and could adversely impact on the delivery of the financial recovery plan;



- changes in the regulations governing capital to revenue transfers from 2006/2007 may prevent the Board from clearing its cumulative deficit within the 2006/2007 planned timeframe; and
- further efficiency savings may not be possible without cutting back on activity levels and services.

4.5 We also noted that the financial information presented to the Performance Governance Committee and the Board appears sufficient to allow members to discharge their governance responsibilities.

## 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 have yet to formally report on workforce management but our preliminary findings, discussed with management, identified some examples of good practice such as a dedicated workforce development manager to oversee workforce planning. We also identified some areas where the Board is exposed to risk, including:

- locally generated workforce information is not yet sufficiently robust and requires to be improved significantly and, reported on much more extensively. There is, therefore, insufficient information on workforce issues to support effective challenge and scrutiny;
- senior management do not have adequate workforce information and evidence on which to base strategic decisions and evaluate the impact of service developments; and
- the workforce planning agenda may not have a sufficiently high profile within the Service Strategy and Redesign Committee.

4.8 In addition to specific projects under the Change and Innovation Plan, the Chief Executive and other senior officers are taking forward specific elements of service redesign, on behalf of the Service Strategy and Redesign Committee, to drive out inefficiency, and reduce recurring cost commitments over time. One key aspect of this is the development of human resource planning to ensure that the right people with the right skills are in the right place. This is also intended to support financial recovery by reducing the recurring wage bill and reliance on locum and agency support. The development of workforce planning and management information is therefore a critical step in supporting the Board's financial recovery plan.

## Performance Management

4.9 Grampian Health Board has taken steps to strengthen its performance management arrangements through the establishment of a Performance Governance Committee (PGC) and by developing a 'balanced performance framework'. This performance framework is still in development, and will aim to align performance and planning cycles so that the Local Health Plan and service plans become more performance focused.

- 4.10 The PGC was established in April 2004 to monitor and support performance monitoring, assessment and management arrangements across NHS Grampian. This Committee oversees performance governance and prepares bi-monthly exception reports for the Board. These reports summarise the key performance targets (e.g. delayed discharges, financial performance) and risks that have been discussed. The Committee reported that the Board had met all its waiting time targets in 2004/2005 in respect of inpatients, day cases and outpatients.
- 4.11 A strategy map has been produced which shows what NHS Grampian needs to do to deliver on its Health Plan. The map identifies a number of strategic themes over five key areas i.e. improving health, finance, service delivery and organisation, people, and learning and growth. Each theme is aligned to a number of corporate objectives. The corporate objectives have, in turn, been used to develop the personal objectives of the senior management and clinical team in 2005/2006.
- 4.12 The corporate objectives have also been used to inform the development of CHPs and acute services. Work is currently underway to develop measures and targets linking to each of the corporate objectives. These will be used to track progress in implementing the Local Health Plan through regular review and reporting.
- 4.13 We plan to monitor progress in implementing the balanced performance framework as part of our audit in 2005/2006.

## **National studies**

- 4.14 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 national reports issued by PAG:
- 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)
  - Waste management follow-up report (national report)
- 4.15 Staff governance was carried out as part of our performance management audit responsibilities although our findings are summarised within the governance section of this report at paragraph 5.3.

## **Using medicines in hospital**

- 4.16 PAG carried out a local study on using medicines in hospital within the acute sector of Grampian Health Board. A number of areas of good practice were identified. Examples included a focus on staff training in the use of medicines, an integrated approach to medicines management across the Board and a well developed clinical pharmacy service in most areas.
- 4.17 Areas where further improvements could be made were also identified including the need to put in place a robust process for funding new medicines. Further, improved reporting of medicines use and spend, with more input from pharmacy was also identified as a key area for improvement.

4.18 With our colleagues in PAG, we will monitor the Board's progress in implementing audit recommendations in the agreed action plan at a future date.

#### A review of bowel cancer services

4.19 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 time targets.

4.20 The national report identified specific examples of good practice in Grampian Health Board. These were a pilot bowel screening programme that enabled patients with cancer to be identified earlier and the introduction of a single medical/surgical waiting list for diagnostic interventions. The single list system aims to reduce variations in waiting times and allow cancer patients to be seen earlier.

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 Grampian Health Board outperformed the national target set for the reduction in delayed discharges for the year to April 2004. The Board also met its 2004/2005 target albeit this was revised by the SEHD from 177 to 222 to reflect service redesign underway within Grampian.

Table 4.1  
Delayed discharges 2003/2004 and 2004/2005

Delayed discharges			
2003/2004		2004/2005	
Target	Actual	Target (Revised)	Actual
228	221	222	194

4.23 A number of initiatives have been implemented to ensure that the delayed discharges target is met including the use of integrated care groups, the purchase of additional nursing home places and the introduction of a community geriatrician pilot. The Board's Annual Review highlighted that while targets have been met this remains a potential risk area that the Board needs to continue to manage in partnership with local authorities.

#### 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. NHS Grampian has a senior member designated as having responsibility for waste management, and the Board has an initiative to raise the profile of waste management. The Board also regularly reviews and updates its waste management induction training although it needs to develop its refresher training for existing staff.

4.25 The report also highlighted that there is still scope to improve waste recycling. Presently, Grampian does not recycle paper, cardboard, glass, batteries or toner. Management stated that costs of recycling outweigh the benefits. A pilot study undertaken at NHS Grampian showed that sanpro waste (nappies and incontinence pads) can be segregated safely but that the cost savings are less than anticipated.

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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:

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

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

### Compliance with the NHSScotland Staff Governance Standard

5.3 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.

5.4 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. We reviewed the Board's SAAT and our findings are considered in the Performance Assessment Framework. We also concluded that the self-assessment has been robust and the 2005/2006 action plan is credible and owned.

5.5 The agreed actions from the 2005/2006 action plan identified a number of key areas for improvement including:

- the Board is unable to fully provide the mandatory statistics required by the Staff Governance Standard;
- the need to link pay modernisation to service plans and performance appraisal;
- the development of a single approach to risk assessment; and
- the need to develop partnership structures below sector level e.g. Finance and HR partnership groups.

5.6 We will monitor the Board's progress in delivering the 2005/2006 action plan during financial year ending 31 March 2006.

### Corporate governance

5.7 Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and your financial position. We have made comment on your financial position at paragraphs 3.6 to 3.12.

- 5.8 We relied on the work of internal audit to give us assurances in these areas, and also looked at five specific areas of risk to see what governance arrangements were in place to manage them. Our findings in these high risk areas are summarised in the following paragraphs.

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

- 5.9 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. At the time of our audit work, the main area where the Board was exposed to risk was business continuity and recovery procedures.

***New General Medical Services Contract (nGMS)***

- 5.10 Overall, we concluded that the Board has successfully implemented the nGMS contract and controls have been put in place to ensure that the contract is evaluated and monitored for both financial and quality assurance.

***BACSTEL-IP***

- 5.11 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. 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.

***Agenda for Change (AfC)***

- 5.12 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 £3.86 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 2006/2007. There is an expectation that new terms and conditions will increase employers' costs and given the significant financial implications, the Board will need to ensure that full implementation is tightly monitored and managed.

***Consultant Contract***

- 5.13 The new Consultant Contract was implemented on 1 April 2004 and backdated to 1 April 2003. This has resulted in significant additional costs being incurred by Grampian Health Board, i.e. £6.7 million in 2003/2004 and £8.6 million in 2004/2005. We took assurance from internal audit's work that the Consultant Contract was implemented effectively and in accordance with circular PMT 16. Grampian 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.

**Clinical governance**

- 5.14 Grampian Health Board's clinical governance arrangements were under development during 2004/2005. A separate Clinical Governance Operational Committee has been set up as a short-life group to support the transition from former corporate governance arrangements that existed in separate local health bodies to the single system arrangements now under development.

- 5.15 A Clinical Governance Committee was established in February 2005 to oversee clinical governance and report directly to the Board. The main duties of the clinical governance committee are to provide systems assurance and oversee public health governance. These arrangements are based on guidance contained in MEL (1998) 75 and MEL (2002) 29 although the Clinical Governance Committee did not provide an annual report to the Board that provided assurances on the effectiveness of clinical governance. However, the Board receives a monthly update letter from the Committee chairman and a bi-monthly report through the Committee minutes that highlight significant issues.
- 5.16 Grampian Health Board is in the process of developing an integrated clinical governance strategy that will cover the full range of risk, financial, clinical and information governance. This work is being led by the Director of Performance Improvement and the Performance Governance Committee. A draft strategy is due to be provided to the Chief Executive and Chief Operating Officer for consideration in early August 2005.

## 6. Looking Forward

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- 6.1 This report represents the conclusion of our audit of NHS Grampian in 2004/2005. There are several issues we consider to be challenges to you in future years and we intend to consider them as part of our audit in 2005/2006.
- 6.2 Through your Health Plan (*'Healthfit'*) you are focusing on a Change and Innovation Programme to deliver recurring financial benefit and reduce dependence on non-recurring income. This will be achieved through service redesign and cost reduction initiatives such as best procurement initiative and reducing agency staff costs. In the meantime, non-recurring income will be used to eliminate the Board's cumulative debt and support revenue expenditure. However, in the medium term, the Board is still exposed to significant risks particularly achieving financial balance in the face of significant additional recurring cost pressures and reliance on capital to revenue transfers.
- 6.3 The Change and Innovation Plan sets out a programme of projects to deliver and develop sustainable redesign in line with *'Healthfit'*. The delivery of efficiencies through service redesign and innovation necessitate longer term cost efficiencies being released into the local health system. This is also intended to reduce the Board's reliance on non-recurring income. However, this could pose further risks and challenges for service sustainability in the medium term as the Board will need to maintain adequate levels of service whilst generating cost efficiencies and savings to support ongoing service redesign. An effective public involvement strategy will also be necessary to ensure community support for service redesign plans. We will continue to monitor developments to ensure that they are progressing on time.
- 6.4 We commented on the need for high quality workforce information to improve strategic management and service planning. Workforce planning information is necessary to enable the Board to manage and prioritise staff resources effectively. Adequate information will enable the Board to meet the requirements of the NHSScotland Staff Governance Standard.
- 6.5 We will track the impact of the national Shared Services project on staffing and resources. Implementation of *Agenda for Change* will also be monitored.
- 6.6 The Kerr Report *'Building a better health service fit for the future'* places requirements upon boards to implement its recommendations. We will monitor the Board's response to the Kerr Report and the impact on your strategic direction. The Board is committed to community based healthcare as set out in the Local Health Plan.
- 6.7 The development of new community based models of care through CHPs will also be required of the Board in 2005/2006. Ministerial approval for the scheme of establishment has been granted and the Board will have to build on existing working relationship with local authority partners to ensure that the CHP operates effectively.
- 6.8 Accountable Officers have a duty to ensure that arrangements are in place to secure Best Value. Many aspects of Best Value are reflected in the Board's planning, performance and scrutiny frameworks. The Board has provided evidence on how Best Value principles have been applied and indicated that this will continue to develop. Senior management also emphasised that the local framework for service delivery reflects Best Value principles and is focused on continuous delivery. We intend to focus on this area, across all our health audits, as part of our audit work in 2005/2006.

## Key Risk Areas & Planned Management Action

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
1	2.6	Service redesign and innovation necessitate longer term cost efficiencies being released into the local health system. There is a risk that adequate levels of service may not be maintained whilst generating cost efficiencies and savings to support redesign.	Financing of adequate service levels will be through a combination of recurring cost reductions that can be delivered immediately or in the short term and non-recurring solutions that will continue to be required pending redesign delivering long term, recurring cost reduction.	Accountable Officer	Through 2005/2006 and 2006/07
2	2.8	The Board is relying on cost efficiencies to support redesign and has developed a financial recovery plan to achieve financial balance, using non-recurring monies. If the underlying financial assumptions are wrong the Board may not meet its targets.	The Board contends and the SEHD accepts that an organisation the size of NHS Grampian will always have some reliance on non-recurring finance, not least because the SEHD continues to provide non-recurring funding. The Interim Chief Executive chairs a financial recovery steering group whose remit is delivery of the plan including ongoing assessment of risk of failure.	Accountable Officer	Through 2005/2006 and 2006/07
3	2.10	Workforce planning information and planning may not be sufficiently developed to inform management decisions on service redesign or support financial recovery plans.	ISD information is already available and NHSG continues to develop more "real time" information through use of data management products such as Business Objects. There will also be a trawl of other Boards seeking best practice solutions that NHSG can deploy.	Director of Finance on behalf of the Financial Recovery Workforce Planning Steering Group	December 2005



Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
4	4.2	Draft SEHD guidance issued in 2003 on Best Value has not been fully implemented although the Board has implemented a local framework as an alternative. It is possible in such circumstances that the Board may not be able to fully demonstrate that it has secured Best Value.	The Board recognises the importance of continuing to seek and demonstrate Best Value in everything it does. The Director of Performances Improvement continues to lead on ensuring that good practice from a variety of sources is adopted by NHS Grampian allowing existing local methodology to fully mirror national guidance.	Director of Performance Improvement	31 March 2006

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- *providing independent reports to the Auditor General and the wider public on how public money is spent, what it achieves and what improvements can be made*
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- *providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements*