

Report to Tayside Health Board on the 2004/2005 Audit

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Executive Summary

Introduction

As part of our responsibilities as external auditors for Tayside 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 Tayside Health Board secures value for money in distinct areas.
- **Governance** —our assessment of the Board's clinical, corporate and staff governance arrangements.

Risk Assessment

We identified the following significant risks in our Audit Planning Framework document. Our view on the current position of each is stated below.

- **Service Sustainability:** We identified that a risk factor for NHS Tayside is the ability of the Board to provide appropriate, safe, sustainable services in an environment of changing clinical demands. You have approved a five year health plan to meet service challenges and this is also reflected in your corporate objectives, and supported by a series of performance targets. It is essential that you continue to deliver against your plans to ensure that the service demands are met.
- **Financial Position:** In our audit plan we highlighted that in 2005/2006 there will be additional cost pressures of £56.3 million leaving a potential funding gap of £17.5 million. Ambitious savings targets have been set to manage the projected shortfall but there is a risk that the Board may fail to meet the required levels of savings.
- **Workforce Planning:** We highlighted that the implementation of Agenda for Change is likely to have a high level of impact on NHS Tayside's resources and funding. Progress towards meeting national targets on Agenda for Change is regularly reported to the Finance and Resources Committee. You are also reviewing a number of key workforce planning areas, including skill mix and the effective utilisation of the current workforce. We will continue to monitor progress in this area during 2005/2006.

Financial Position

- We have given an unqualified opinion on the financial statements of NHS Tayside for 2004/2005, including the regularity of income and expenditure, and the Board's statement on internal control.
- NHS Tayside achieved a surplus of £4.5 million (0.8%) against its Revenue Resource Limit (RRL) for 2004/2005. Last year, the surplus carried forward amounted to £4.3 million (0.9%). The Board reported that it had achieved its internal savings target of £8.82 million for the year and, of this, £3.5 million was met on a non-recurring basis. Any savings that have not been made on a recurring basis are required to be found again in 2005/2006 along with the current year savings targets set by the Board.
- In some clinical groups, the cumulative effect of being required to achieve recurring savings means that targets of a 6% reduction in base budgets have been set for 2005/2006, with overall savings of £9.1 million to be achieved. The Finance and Resources Committee have recognised that these are challenging targets, but have stressed that the Board have to achieve the targets to maintain financial balance and also to ensure that funding is released in the system to meet service and development priorities.
- There are considerable risks to the achievement of the challenging savings targets within the financial plan to 2009/2010, with unprecedented levels of recurrent cost efficiencies to be found. Changes to the capital funding regime, which will restrict capital to revenue transfers, will also add significant risks to the achievement of the Board's financial targets.

Performance Management

- The Board's performance management framework is strong, with coherent targets and monitoring across the key strategies and health plans. These are reported to management and to the Board on a regular basis and there is a robust process of challenge and scrutiny in place.
- In our view, you have a strong performance management culture. Your approach to this area is stronger than that of many other health boards and represents best practice.
- During 2004, Audit Scotland led a project with the Tayside Partnership and the Information Services Division of National Services Scotland. The project developed a whole systems interactive computer model for Tayside to help tackle its delayed discharges from hospital. The results of the project were shared with all other Scottish NHS and council partnerships to help in the development of their own whole systems thinking.
- A national study on bowel cancer services in Scotland identified examples of good practice in NHS Tayside, including the early screening programme for patients.

Governance

- 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 is credible and owned. The Board was able to provide the mandatory statistics required by the NHS Scotland Staff Governance Standard, unlike many other health boards.

- Corporate governance

Although NHS Tayside has been introducing elements of single system working since 2002, the creation of a unified Board from April 2004 necessitated a review of corporate governance with the result that a revised code of corporate governance was approved by the Board in April 2005. Further development of structures across services is expected during 2005/2006 and we will review developments over the next year.

We have highlighted the strength of challenge and scrutiny from non-executive members on key issues and areas for decision. This has contributed to the strong corporate governance structure within NHS Tayside.

- Clinical governance

The Quality and Clinical Governance Committee undertook a review of the Clinical Governance Framework during the year, and explored opportunities to redesign the clinical governance framework of NHS Tayside at both a strategic and an operational level. Work has started on a clinical governance strategy with progress reported to the Board. We will continue to review this area during 2005/2006.

Development of the Stracathro ambulatory diagnostic and treatment centre is planned, which will utilise private sector expertise to further develop services. The development will be funded directly by the SEHD. It is anticipated that this development will impact positively on waiting times in NHS Tayside, NHS Grampian and NHS Fife.

Looking Forward

NHS Tayside faces a number of challenges in the future. These include:

- implementing plans to have the Stracathro ambulatory diagnostic and treatment centre operational by 2006;
- achieving the levels of efficiency savings targets across services necessary to meet longer term financial plans;
- developing single system working to improve the effectiveness of the organisation; and
- addressing the challenges of the Kerr report and developing community based models of care through CHPs.

These areas and the controls put in place by management to address these issues will be subject to ongoing review in 2005/2006.

1. Introduction

- 1.1 This report summarises the outcomes from our 2004/2005 audit of NHS Tayside. The scope of the audit was set out in our Audit Planning Framework, which was approved by the Audit Committee on 10 February 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; 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. Initially there is some overlap between these topics. We have tried to draw out common themes and issues throughout the report.
- 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 high risk areas. 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 topical reports we have issued.
- 1.4 This is the fourth year of a five year audit appointment and the NHS Tayside'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

Introduction

2.1 In our audit plan, we identified three main areas of risk for NHS Tayside. 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 and we also comment on longer term planning issues.

Sustainable Health Care Services

2.2 We identified that a risk factor for Tayside Health Board is the ability of the Board to provide appropriate, safe, sustainable services in an environment of changing clinical demands.

2.3 The Service Redesign Committee is responsible for providing the Board with the assurances that mechanisms are in place to support change and innovation and are effective throughout the system. The Committee also ensures that the principles and standards of 'Partnership for Care 2003' are applied to the redesign activities of NHS Tayside.

2.4 The Tayside Health Plan covers a period of five years and contains proposals to improve the health of the people of Tayside and modernise the care they receive. The Local Health Plan has seven corporate objectives which are the same as those used for the national Performance Assessment Framework (PAF). Supporting each objective is a series of performance targets which will contribute to the overall achievement of the objective. The Local Health Plan also contains longer term strategic objectives which are supported by clear performance targets. We will continue to review the achievement of the Health Plan during 2005/2006.

2.5 During the financial year, the Service Redesign Committee approved the move to a three year Change and Innovation Plan covering the period 2005 to 2008 and agreed that the financial aspects of the plan would be integrated into the 2005/2006 budget setting process for NHS Tayside. Sustainable health services still remain a risk and we will continue to monitor developments in this area.

Financial Position

2.6 In our audit plan, we commented on the risks to the Board due to financial pressures such as Agenda for Change and the new GMS contract which will impact on your financial position. Although NHS Tayside was budgeting a breakeven position for 2004/2005, at the end of the financial year, the Board had a cumulative surplus against its revenue resource limit of £4.5 million. The key difference between outturn and forecast was the impact of the revaluation of the estate. The surplus also included £0.9 million representing the increase in carry-forward expenditure between 2003/2004 and 2004/2005. Overspends of £5 million and £2 million in the Acute and Primary Care Divisions respectively, were due to an increased volume and complexity of patient activity impacting on expenditure on drugs and clinical supplies and a shortfall in funding for the GMS contract. The overspends were managed in-year applying these funds. **(Risk Area 1)**

2.7 Your Corporate Financial Plan for 2005/2006, which was presented to the Board on 15 April 2005, highlighted that, although next year there will be additional funding available of £38.8 million, there will also be total additional cost pressures of £56.3 million leaving a shortfall of £17.5 million. To meet this projected shortfall, NHS Tayside has anticipated that £5 million of non-recurring support will become available in 2005/2006. A further £1.5 million is to be saved by review of carry forward schemes and balances, and £2 million from slippage in service developments. This leaves a remaining savings target of £9.1 million for 2005/2006, with 63.9% of this sum having been already identified. We will monitor the Board's progress in managing these risks during our 2005/2006 audit. Our local review of financial management is summarised at paragraphs 4.7 and 4.8 and outlines the risks to the Board.

Workforce Planning

2.8 We highlighted workforce planning as being a complex and uncertain undertaking in our audit plan, and indicated that the implementation of Agenda for Change is likely to have a high level of impact on NHS Tayside. The progress to date in implementing the Agenda for Change includes the matching and evaluating of 44% of jobs within the Board. The target date for implementation of Agenda for Change nationally is 30 September 2005. However, a number of local and national factors will have an impact on NHS Tayside and other boards achieving this date and there are discussions taking place at a national level on these targets. Progress towards meeting national targets on Agenda for Change is being managed by the Director of Human Resources and is regularly reported to the Finance and Resources Committee.

2.9 Workforce planning was discussed in detail at the Financial Planning Seminar which was held in March 2005. The Director of Human Resources agreed to convene a group to take forward the issues raised. These included the need for a group to look at skill mix and the effective utilisation of the workforce, a review of the robustness of HR procedures and a review of workforce issues in the context of Tayside partnerships. We will monitor progress on these issues during 2005/2006.

Longer Term Planning Issues

2.10 In our plan, we highlighted five longer term planning issues 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);
- modernising medical careers; and
- eProcurement.

2.11 We have been monitoring developments in these areas during the 2004/2005 audit. In the following paragraphs, we comment on changes that have taken place since we agreed our plan.

Shared Support Services

2.12 The NHS in Scotland plans to create £10 million recurring savings annually with the introduction of shared support services covering finance, procurement, internal audit, payroll and practitioner services payments. Plans approved by the Chief Executive of the NHS in Scotland are for a two hub and twelve spoke model of service delivery but it

is not yet known how this will impact on staff in NHS Tayside. This is particularly important in the context of the support that the Board currently provides for other NHSScotland organisations on the eFinancials financial management system. We will continue to monitor the impact of shared services during 2005/2006.

The Kerr Review

- 2.13 The Kerr report *'Building a better health service fit for the future'* outlines proposals for the future shape of NHS Scotland over the next twenty years. The report recommends that all NHS boards establish a systematic approach to caring for the most vulnerable people 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. It is essential that the Board takes cognisance of the contents of the Kerr report as it progresses the development and implementation of its Local Health Plan and Change and Innovation Plan.

(Risk Area 2)

Community Health Partnerships

- 2.14 The establishment of community health partnerships 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" 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 and take forward the Joint Future agenda by promoting interaction between health bodies, local authorities and the voluntary sector.
- 2.15 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 Tayside's scheme of establishment for CHPs has been approved and is based on the three CHPs covering Angus, Dundee, and Perth and Kinross. A development plan has also been approved to ensure successful implementation of community based healthcare. The schemes of establishment for the three CHPs provide details for working in partnership with staff on staff governance issues. We note that the Board proposes to have a Joint Partnership Forum for the CHPs in Tayside to deal with specific issues.
- 2.16 We plan to monitor NHS Tayside'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 particularly in relation to governance arrangements.

Modernising Medical Careers

- 2.17 The national implementation of a structured training programme for junior doctors commenced in August 2004. "Modernising Medical Careers — the next steps", published in April 2004, outlines the principles and structure of the two year foundation programme for graduate doctors followed by specialist and general practice training programmes.
- 2.18 The service impact of the move of junior doctors to 'supernumerary' status (i.e. a training focus with reduced service input) is applicable from 2006/2007. The Strategic Financial Plan to 2009/2010 includes a financial provision in respect of Modernising

Medical Careers. We will continue to monitor the impact on the Board's financial and service plans throughout the 2005/2006 audit.

eProcurement

- 2.19 eProcurement was due to be implemented from 2005 as part of a national initiative. However, the PECOS system that was to be used is currently under review nationally, and consequently its implementation has been put on hold as a newer version of the software is tested.
- 2.20 NHS Tayside hosts the eFinancials test database used by NSS for Pecos/eFinancials integration testing. We will monitor any progress in this area and any impact on internal control during the 2005/2006 audit.

3. Financial Statements

Introduction

3.1 This section sets out our responsibilities 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 Tayside 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 Tayside Health Board for 2004/2005. The financial statements were not approved and certified by the target date of 31 July, although the uncertified accounts spreadsheet was submitted by the Board to the SEHD on 28 July 2005 to meet national timescales. A Board meeting had been scheduled for 21 July 2005 to approve and sign the accounts but this was postponed in order to clarify the accounting treatment of asset revaluation, with guidance issued on this topic by the SEHD on 21 July 2005. The Board meeting took place on 9 August 2005 and we provided our audit opinion on that date.

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 in Table 3.1 below:

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

Financial Target	Target £m	Actual £m	Variance £m
Revenue Resource Limit	548	544	4
Capital Resource Limit	8	8	-
Cash Requirement	519	519	-

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 117 changes to NHS Tayside'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 19 May 2005. We comment further on financial management within the Board later at paragraphs 4.7 and 4.8.

3.7 The Board has achieved a cumulative surplus in 2004/2005, of £4.5 million, an in-year surplus of £162,000 and used non-recurring funding to support its revenue position in 2004/2005. Non-recurring funds have to be provided next year to fund specific service developments. Their application against recurring expenditure can therefore mask the Board's underlying financial position. Stripping the application of this non-recurring funding out allows us to reflect the underlying funding gap in NHS Tayside for 2004/2005, as illustrated below.

*Table 3.2
Underlying Deficit 2004/2005*

Description	£ million
2004/2005 cumulative surplus	4.5
Non-recurring monies applied to recurring costs in 2004/2005	(7.8)
Estimated underlying funding gap	(3.3)

The figure of £7.8 million includes the increase of £0.9 million in carry-forward expenditure plus the additional non-recurring allocations received from SEHD in 2004/2005 totalling £6.9 million.

- 3.8 In 2004/2005, the Board reported that it achieved its savings targets for the year. The target set was £8.82 million and of this £3.5 million was met on a non-recurring basis. As already mentioned, any savings that have not been made on a recurring basis are required to be found again in 2005/2006 along with the current year savings targets set by the Board. In some clinical groups, the cumulative effect of this means that targets of a 6% reduction in base budgets have been set for 2005/2006, with overall savings of £9.1 million to be achieved.
- 3.9 The Finance and Resources Committee have recognised that these are challenging targets, but have stressed that the Board has to achieve the targets to maintain financial balance and also ensure that funding is released in the system to meet service and development priorities. Officers have carried out a risk assessment of their five year corporate financial plan and have identified that the key risk to achieving long term financial balance include:
- failure to achieve cost reduction targets —the level of cost reduction required in 2006/2007 (£13.3 million) is higher than can normally be achieved;
 - the impact of changes in Treasury rules regarding capital to revenue transfers — it may not be possible to classify all expenditure on capital assets as ‘capital’, which will then impact on revenue budgets;
 - cost pressures may be greater than anticipated —provision has been made within the financial plan for up to £3.5 million to cover unanticipated cost pressures; and
 - cost pressures from various initiatives and service developments may be higher than anticipated —forecasts of costs from, for example, Agenda for Change, GMS contract and prescribing are factored into plans and regularly reviewed.
- 3.10 Following the revaluation, the Board has revised the capital charges forecast for 2005/2006 and it is expected that the charges will be approximately £1.8 million less than has been provided in the Corporate Financial Plan.
- 3.11 We will monitor the Board’s progress in managing these risks during 2005/2006.

(Risk Area 3)

The Issues Arising from the Audit

- 3.12 The main issues arising from our audit were:
- **Property Revaluation** —Late guidance was received from SEHD on 21 July 2005 clarifying accounting treatment for the impact of revaluation of land and buildings during the year. The timing of this guidance meant that further changes had to be made to Tayside’s accounts and, therefore, the Board meeting to approve the accounts had to be rescheduled to 9 August, missing the SEHD deadline for submission of accounts of 31 July. However, the uncertified annual accounts spreadsheet was sent to the SEHD on the 28 July to meet their submission requirements.

The Board had instructed independent valuers to perform a valuation of all of the estate in March 2005. The valuers revalued the NHS Tayside estate as at 1 April 2004, with the result that changes in remaining useful lives and valuations

impacted on the Board's capital charges for 2004/2005. The revaluation increased the overall value of properties by £8.6 million.

- **Completion of the draft accounts**—The accounts were presented for audit on the 24 May 2005, later than originally agreed. The draft accounts received were incomplete with gaps in many of the detailed notes which then impacted on the audit timetable. The finalised accounts including the revaluation results were not made available until 12 July. While it is appreciated that unified accounting meant that a number of issues of coding and ledger structure emerged during the final accounts process, a more robust timetable should be in place for the 2005/2006 accounts to enable the preparation of the accounts to be completed on time.

Statement on Internal Control

3.13 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 an area of internal control which needs to be strengthened:

- Bank reconciliations were not completed on a regular basis throughout 2004/2005 and the position at 31 March 2005 was not reconciled until the end of June 2005. The Director of Finance issued a report assuring the Audit Committee that bank reconciliations have since been prepared on a monthly basis. There were no other disclosures of areas of internal control which require to be strengthened. This is an indication of the good quality of internal control systems in operation in NHS Tayside during 2004/2005.

4. Performance Management

Introduction

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

- performance management;
- financial management;
- results of workforce planning; and
- national studies.

We also set out the findings of our follow up work on previous performance audit reports.

4.2 Accountable Officers have a duty to ensure that 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 it allowed them discretion to adopt an alternative approach. During 2004/2005, internal audit issued a report on “Best Value and Cost Reduction” at NHS Tayside on which the audit opinion was “Category A — good, in that the system meets control objectives and Tayside NHS Board is able to demonstrate effective systems for achievement of best value.” We intend to focus on this area as part of our audit in 2005/2006.

(Risk Area 4)

Performance Management

4.3 Your Local Health Plan contains performance targets for corporate objectives and longer term strategic objectives. The plan is explicitly performance orientated and is specific about improvement targets so that progress will be clearly measured and demonstrated. Responsible officers have been identified for implementing specific actions in relation to the performance targets. Achievement against target is reported to the Board regularly.

4.4 A suite of key indicators derived from PAF and from local performance targets, which cover a wide range of areas including waiting times, staffing levels, pay data, bed occupancy levels, and financial position are monitored. Progress reports on these key indicators are completed monthly and reported to the Chairman of the Board.

4.5 Through our attendance at Board meetings, we noted that the Board's Performance Management Team have ensured that corporate objectives for 2005/2006 are aligned with the Local Health Plan and the Corporate Financial Plan, and that targets across these key strategies are congruent. There will be a series of monthly performance management reports on progress towards these corporate objectives and we plan to review these during 2005/2006.

4.6 In our view, you have a strong performance management culture. Your approach to this area is stronger than that of many other health boards and represents best practice.

Financial Management

4.7 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. We reviewed the financial management processes in place within the Board to ensure that robust systems are in place to manage the financial position. The main findings of the review are set out below:

- you have a sound system for financial planning, which involves consultation with stakeholders and officers on the development of the corporate financial plan through annual planning seminars;
- the finance department operates under a divisional structure which has not yet been fully developed to reflect effective single system working. Officers noted, however, that characteristics of a single structure are already being delivered due to the close working relationships of Finance staff at various levels;
- Board members play a key role in holding executives to account through the scrutiny provided by the Finance and Resources Committee;
- new developments such as nGMS, New Deal for Junior Doctors and Agenda for Change are adding significant cost pressures to the health system and could impact on the delivery of the financial plan in the future;
- further efficiency savings within the local health system may not be possible without cutting back on service activity levels; and
- there is considerable risk to the achievement of the challenging savings targets within the financial plan to 2009/2010, with unprecedented levels of recurrent cost efficiencies to be found.

4.8 We will continue to focus on progress in this area during 2005/2006.

Workforce Planning

4.9 In addition to our comments at paragraphs 2.8 and 2.9, other changes in the NHS have necessitated several significant pay modernisation approaches including the new GMS contract, the consultants contract and the Agenda for Change. The results of our review of the new GMS contract are at paragraph 5.7 and we will continue to review pay modernisation developments during 2005/2006.

4.10 The audit of staff governance during 2004/2005 revealed that there has been a review of communications in NHS Tayside which will be used to inform the communications strategy. A training and awareness plan has been introduced by the Board. Other achievements included the approval of a Tayside health and safety strategy and policy, and the introduction of an incident management policy.

National Studies

4.11 In 2004/2005, there were three 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:

- Using medicines in hospital (local report)
- A review of bowel cancer services (national report)
- An overview of delayed discharges in Scotland (national report)

4.12 A review of staff governance was also carried out as part of our performance management audit responsibilities although our findings are summarised within the governance section of this report at paragraphs 5.13 to 5.15.

Using medicines in hospital

4.13 PAG carried out a local study on using medicines in hospital within NHS Tayside as part of a wider national review. A number of areas of good practice were identified. Examples included a policy aiming to reduce inappropriate prescribing of key antibiotics, the development of a policy on using unlicensed and off-label medicines, and the introduction of an electronic medication incident reporting system.

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

A review of bowel cancer services

4.15 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.

4.16 The national report identified specific examples of good practice in Tayside Health Board. These were a pilot bowel screening programme that enabled patients with cancer to be identified earlier and the involvement of clinical audit staff in organising bowel cancer minimum data set meetings.

4.17 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

4.18 During 2004, Audit Scotland led a project with the Tayside Partnership and National Services Scotland to develop a whole systems interactive computer model for Tayside to help tackle its delayed discharges from hospital. This involved examining a whole care system and testing out various strategies that could be adopted in different parts of Tayside's local care system. The results of the project were shared with all other Scottish NHS and council partnerships to help in the development of their own whole systems thinking.

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- 4.19 The main finding from the study was that delayed discharges were a symptom of a wider, systemic problem and could not be treated as a stand-alone issue. Decisions made about services aimed at reducing delayed discharges may also have unintended consequences for other parts of the wider health and social care system. Delayed discharge planning therefore needs to be integrated with mainstream capacity planning and decision-making about projects and funding across partnerships. We will continue to review progress in this area in 2005/2006.
- 4.20 The national report also highlighted that Tayside Health Board outperformed the 20% target reduction in delayed discharges set by the SEHD for the year to April 2004. The SEHD has set a more challenging target for 2005.

5. Governance

Introduction

5.1 This section sets out our main findings arising from our review of your governance arrangements as they relate to:

- clinical governance;
- corporate governance; and
- staff governance.

Clinical Governance

5.2 Tayside Health Board's clinical governance arrangements continued to develop during 2004/2005. The Quality and Clinical Governance Committee undertook a review of the Clinical Governance Framework during the year. A Clinical Governance Development Day was held in September 2004 which explored opportunities to redesign the clinical governance framework of NHS Tayside at both a strategic and operational level. A Clinical Governance Coordinator has now been appointed. Work has started on a clinical governance strategy with progress reported to the Board. We will continue to review this area during 2005/2006.

5.3 The Kerr report 'Building a health service fit for the future' was published in May 2005. The Board are awaiting an indication from the SEHD as to which proposals they will be taking forward before completing more work on the Kerr report recommendations.

5.4 In May 2005, it was announced that a further development of the Stracathro ambulatory diagnostic and treatment centre was planned. This development will utilise private sector expertise to further develop the services provided at Stracathro. The development will be funded directly by the SEHD. It is anticipated that this development will impact positively on waiting times in NHS Tayside, NHS Grampian and NHS Fife. The Board have agreed to support this project and further discussions are being held with the SEHD. It is anticipated that the development will be operational from the start of 2006, although this may be a tight timescale.

(Risk Area 5)

Corporate Governance

5.5 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 business conduct and your financial position. We made comment on your financial position earlier in this report at paragraphs 3.5 to 3.11.

5.6 We relied on the work of Internal Audit to give us assurance in these areas and we also looked at five specific areas of risk to review the governance arrangements in place to manage them:

- General Medical Services (GMS) contract;
- FMS Computer Services;
- bank reconciliations;
- Community Health Partnerships (see earlier comments at paragraphs 2.14 to 2.16); and
- corporate governance structures.

General Medical Services (GMS) Contract

5.7 Our review considered the arrangements in place to manage the new GMS contract. Our report concluded that the Board has successfully implemented the new GMS contract, taking account of the needs of the local population, while having due regard for resource constraints. The main findings from our review were:

- there is an IM & T investment plan in place which covers the audit of hardware and software, the service level agreements with practices, details of training and mentoring and support and helpdesk arrangements;
- the level of quality points to be achieved by the practices has been closely monitored and appropriate payment verification and quality assurance visits have taken place;
- there is a shortfall in the allocations for some funding streams but the Primary Care Division has monitored this closely and provided frequent updates to the Finance and Resources Committee. Financial provision was made in the updated plan, based on the estimated outturn for 2004/2005; and
- the Board should formally monitor the impact of the new contract arrangements on changes to the service and the impact on the skill mix at practice level.

5.8 The recommendations made in the report will be followed up as part of the 2005/2006 audit process.

FMS Computer Services

5.9 NHS Tayside provides a Financial Management System (FMS) computer service based on the Cedar 'eFinancials' system to five other Boards through the eFinancials consortium. A review is completed annually to advise NHS Tayside and the other members of the consortium of any risks or issues that may impact on the audit. The main findings of our review included:

- staffing within Maryfield Financial Services Centre (MFSC) eFinancials team has remained at a level that ensures appropriate systems administration skills are deployed for the eFinancials consortium;
- regular, automated data backups are performed, with backup media stored off-site;
- there are ICT contingency procedures in place to facilitate FMS Service recovery in the event of a disaster. However, although the operation of the data replication

service has been tested, none of the tests had involved the eFinancial servers of any other member of the eFinancials consortium; and

- although it is recognised that the BACS bureau service provided as an aspect of the FMS Computer Service needs to be upgraded to the new BACSTEL-IP platform, no formal plans are currently in place to ensure that this is completed by December 2005, although this is currently being monitored by a senior officer within Financial Services. There remains a risk that this business critical process will not be upgraded in time.

Bank Reconciliations

- 5.10 The move to a unified Board meant that the previous Trusts' bank accounts had to be closed. During this time, the Board also moved its accounts to another banker —HM Office of Paymaster General. The implementation and impact of these arrangements resulted in the Board failing to reconcile the main bank account during 2004/2005 and only resolving this in June 2005, three months after the financial year end. As noted at paragraph 3.13, the Board has made appropriate disclosure within the statement on internal control on this matter and a full report was made to the Audit Committee detailing the current procedures in operation.

Corporate Governance Structures

- 5.11 Although NHS Tayside has been introducing elements of single system working since 2002, the creation of a unified Board from April 2004 necessitated a review of corporate governance with the result that a revised code of corporate governance was approved by the Board in April 2005. Further development of structures across services is expected during 2005/2006 and we will review developments over the next year.
- 5.12 We attend Board and Committee meetings regularly, as part of understanding your business better, and have noted the strength of challenge and scrutiny from non-executive members on key issues and areas for decision. This has contributed to the strong corporate governance structure within NHS Tayside.

Compliance with the NHSScotland Staff Governance Standard

- 5.13 The NHSScotland Staff Governance Standard introduced the third component of governance. The aim of this standard is to improve the way staff are treated in NHSScotland and to improve accountability for making this happen.
- 5.14 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 and our findings are considered in the Performance Assessment Framework. Further, our findings inform the SEHD Annual Review process.
- 5.15 Overall, we concluded that NHS Tayside has made progress in delivering the agreed action plan for 2004/2005. Of the 51 agreed actions, 22 (43%) are complete, 16 (31%) are on target for completion, 11 (22%) have slipped on the planned timescales but progress has been made and only 2 actions (4%) show little or no progress. The self-assessment has been robust and the 2005/2006 action plan is credible and owned. We will monitor the Board's progress in delivering the 2005/2006 action plan during financial year ending 31 March 2006.

6. Looking Forward

- 6.1 This report represents the conclusion of our audit of NHS Tayside for 2004/2005. There are several issues we consider to be challenges to you in future years and we intend to consider these as part of our 2005/2006 audit.
- 6.2 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 to see if your strategic direction is aligned with national developments.
- 6.3 Development of the Stracathro ambulatory diagnostic and treatment centre is planned, which will utilise private sector expertise to further develop services. The development will be funded directly by the SEHD. It is anticipated that this development will impact positively on waiting times in NHS Tayside, NHS Grampian and NHS Fife, but there will be significant challenges to ensure that this is operational by 2006.
- 6.4 There are considerable risks to the achievement of the challenging savings targets within the financial plan to 2009/2010, with unprecedented levels of recurrent cost efficiencies to be found. Changes to the capital funding regime, which will restrict capital to revenue transfers, will also add significant risks to the achievement of the Board's financial targets.
- 6.5 The development of new community based models of care through CHPs will also be taken forward in 2005/2006. Ministerial approval for the schemes of establishment has been granted and the Board will have to build on existing working relationships with local authority partners to ensure CHPs operate effectively.
- 6.6 We highlighted that the implementation of Agenda for Change is likely to have a high level of impact on NHS Tayside's resources and funding. You are also reviewing a number of key workforce planning areas, including skill mix and the effective utilisation of the current workforce. We will continue to monitor progress in this area during 2005/2006.
- 6.7 Further development of organisational structures to support single system working is expected during 2005/2006. We will review developments in this area over the next year.
- 6.8 Accountable Officers have a duty to ensure that arrangements are in place to secure Best Value. Internal Audit issued a positive report in 2004/2005 on "Best Value and Cost Reduction" stating that the system met control objectives and that the Board is able to demonstrate effective systems for achievement of best value. We intend to focus on this area as part of our audit 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	Cost pressures such as the actual annual cost of Agenda for Change may exceed the projections in the corporate financial plan. There is a risk that the financial plan may not be robust enough to deal with variations in assumptions.	This risk was identified in compiling the Corporate Financial Plan. The overall financial position, including updated risk assessment, is subject to detailed monthly monitoring by the Financial Planning Steering Group, the Chairman's Scrutiny Meeting, and the Finance & Resources Committee, where the need for any corrective action will be identified.	Director of Finance	Ongoing
2	2.13	The recommendations in the Kerr report may not be compatible with the Board's Local Health Plan and Change and Innovation Plan.	A proposal has been developed to rename the Service Redesign Committee as "NHS Tayside Improvement Committee", and that its role will be expanded to include governance of all aspects of improvement, including those identified within Professor Kerr's report. The Committee will be supported by the Improvement Executive Group (IEG). An NHS Tayside Kerr Self-Assessment Conference has been arranged for 13 September 2005, to update key players on NHST's current status against Kerr, to provide an update on work which has been progressing on a number of key projects, and inform the Improvement Committee work plan 2005/2006 and beyond.	Director of Change & Innovation	October 2005

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
3	3.11	The savings target of £9.1 million for 2005/2006 is challenging and there are unprecedented levels of recurrent costs savings in the future. There is a risk that the targets in the corporate financial plan may not be achievable.	This risk was also identified in compiling the Corporate Financial Plan. Progress in achieving this target is monitored through the arrangements noted in response to the first risk area above.	Director of Finance	Ongoing
4	4.2	Draft guidance on Best Value 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 Best Value.	SEHD has not issued formal guidance beyond the amendment in April 2003 to the Memorandum to NHS Accountable Officers. Nonetheless, NHS Tayside has put in place governance arrangements, which support the Chief Executive in fulfilling his Accountable Officer responsibilities. Further consideration will be given to the development of an overarching framework, which would facilitate the demonstration by the Board that Best Value is being secured.	Chief Executive	January 2006

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
5	5.4	The development at Stracathro is to be operational by the start of 2006. Planned performance against waiting times may not be realised if timescales for the opening of the ambulatory diagnostic and treatment centre are not met.	Progress on the attainment of waiting times targets is monitored monthly through the Chairman's Scrutiny meeting. On 14 July 2005, the Finance & Resources Committee considered a report 'Activity Trends & Associated Financial Implications' which also dealt with NHS Tayside's plans for achieving waiting times targets. NHS Tayside has already had productive dialogue with NWTU re the non-recurring use of funding earmarked centrally to support the Stracathro development.	Chief Executive —Acute Services Division	Ongoing

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