

# **Report to the State Hospital on the 2004/2005 Audit**

## Contents

	Page
<b>Executive Summary</b>	<b>1</b>
<b>Section:</b>	
<b>1. Introduction</b>	<b>5</b>
<b>2. Risk Assessment</b>	<b>6</b>
<b>3. Financial Statements</b>	<b>10</b>
<b>4. Performance Management</b>	<b>13</b>
<b>5. Governance</b>	<b>14</b>
<b>6. Looking Forward</b>	<b>17</b>
<b>Appendices:</b>	
<b>A. Key Risk Areas and Planned Management Action</b>	<b>18</b>

---

## Executive Summary

---

### Introduction

As part of our responsibilities as external auditors for The State Hospital 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 of internal control.
- **Performance Management**—our assessment of the way in which the Hospital secures value for money in distinct areas.
- **Governance**—our assessment of the Board's staff, corporate and clinical governance arrangements.

### Risk Assessment

Our audit focus in the planning stages of the audit was on understanding the State Hospital's business to identify the risks facing the State Hospital. We identified the following risks:

- **Financial Position:** We identified that there were a number of risks impacting on your ability to deliver efficiencies to meet increasing demands. You met your financial targets in 2004/2005 and are predicting a balanced budget in 2005/2006. However this position is reliant on non-recurring money. In common with other Boards the financial position has benefited from capital to revenue transfers during the year. This is a significant risk as capital to revenue transfers will end in 2005/2006.
- **Workforce planning:** Workforce information systems are not fully developed, and there is a risk that workforce development is not fully integrated into service activities and planning. The Hospital now has a training plan in place and has developed a learning strategy. There is also an action plan in place in response to the Nursing Workload and Workforce Planning National Agenda and the Hospital is represented on the West of Scotland Workforce Planning group. Progress has been made in the area but more is required to integrate workforce planning, education and training, and recruitment and retention.

- **Consultants Contract:** This new contract represents significant additional investment in staff. Pay modernisation is expected to improve patient care and the hospital will be expected to demonstrate this. There is a risk that the Hospital does not have sufficient funds for the additional expenditure and this therefore impacts on their financial position. Additionally pay modernisation is expected to improve patient care and the Hospital will be expected to demonstrate this. New contracts have now been signed and backdated payments made, and actual costs were higher than budgeted for. Internal Audit reviewed the implementation of the contract and found that the Hospital had made significant progress towards full implementation of the contract in line with national guidance.
- **Agenda for Change:** This new system of pay and conditions came into force in October 2004. This represents a significant financial cost for the Hospital and any under estimation of costs will affect the financial position. The Hospital has estimated the additional costs of Agenda for Change using a cost model produced by the Scottish Executive Health Department. We have reviewed the basis of the accrual and found it to be reasonable given the current information, and will monitor progress in this area during 2005/2006.

### Financial Statements

- We have given an unqualified opinion on the financial statements of The State Hospital for 2004/2005, including the regularity of income and expenditure and the Hospital's statement on internal control.
- You have met the key financial targets in 2004/2005. If we strip out non-recurring funding applied for other purposes, capital to revenue transfer and the brought forward surplus the underlying funding gap you have managed is £2.8 million, however £2.5 million related to capital to revenue transfer which was spent on backlog maintenance. You are forecasting a balanced budget for 2005/2006 although £343,000 of recurring savings is still to be found. The Scottish Executive recently agreed a £2.5 million capital to revenue transfer for 2005/2006. In future the Hospital will find it more difficult to meet its financial targets as capital to revenue transfers are to end in 2006 and the implementation of the New Mental Health Act places additional strain on the Hospital's resources.

### Performance Management

- Performance management information needs to be developed as it currently only concentrates on the performance assessment framework and the Hospital's financial position. More needs to be done to ensure objectives and performance measures cascade through the organisation and flow from the local health plan. An information collection system has been put in place but this needs to be rolled out to local users and fed into formal reports to the Board.
- The occupational health and safety system within the hospital has been reviewed in a local study carried out at the request of management. We found that the operational health service is operating effectively and that the Hospital's self assessment of the service provided was accurate. Improvements will be achieved through the implementation of the health and safety action plan.

### Governance

- Our audit of staff governance required us to review the Hospital's self assessment against the NHSScotland Staff Governance Standard. We concluded that you had made progress in delivering the agreed action plan for 2004/2005, the self assessment was robust and that the 2005/2006 action plan is credible and owned.
- During the course of the year we reviewed various aspects of corporate governance including internal control, fraud and corruption arrangements and information management. There were no significant control weaknesses identified and we have confirmed that disclosures made in the statement on internal control are consistent with our knowledge of the Hospital.
- Our review of clinical governance has focused on the work of the Clinical Governance Committee and a review carried out by Quality Improvement Scotland (QIS). The Committee held an annual review in April and produced an annual report which was presented to the Board at its July meeting. The Committee concluded that improvements have been achieved from the previous year and QIS noted that you have a well developed clinical governance strategy that appears to be implemented effectively. Both the Committee and QIS have highlighted improvements which could be made in the future including, clearer lines of responsibility; clarification of remits for the Board, Hospital Management Team and Committees; using the risk register to set the governance agenda for the Clinical Governance Committee, and the need for committee papers to focus on outcomes and linkage to the health plan.

### Looking Forward

- The Hospital faces continued challenges to meet its financial targets and continue to deliver balanced budget. Significant cost pressures in the future include pay modernisation, the end of capital to revenue transfer, hospital redevelopment and the implementation of the new Mental Health Act.
- Other significant challenges include:
  - resourcing and sustaining healthcare services during the redevelopment of the hospital;
  - implementation of the new Mental Health Act and in particular securing the additional funding required until the redevelopment of the hospital is completed;
  - developing workforce planning to ensure that it is integrated with service development and plans; and
  - documenting improvements in patient care through the implementation of pay modernisation.
- These areas and the controls put in place by management to address these issues, will be subject to audit review during 2005/06.

---

## 1. Introduction

---

- 1.1 This report summarises the outcomes from our 2004/2005 audit of the State Hospital. The scope of the audit was set out in our Audit Planning Framework, which was approved by the Audit Committee on 15 March 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. Inevitably there is overlap between the topics. We have tried to highlight 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 higher areas of risk. Appendix A sets out the key areas highlighted in this report and action planned by the Board to manage these risks. Other higher risk areas and planned management actions have previously been reported to the Board in other topical we have issued.
- 1.4 This is the fourth year of a five year audit appointment with the State Hospital and the first year of our revised risk-based approach to your audit. 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 four main areas of risk for the State Hospital. We also described longer term planning issues which will impact on the Hospital 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 Hospital.

### Financial Position

2.2 There are increasing requirements on boards to demonstrate that funding is resulting in improved outcomes for patients and that boards are cost effective in their delivery of services. Factors impacting on the State Hospital's ability to deliver efficiencies or savings to meet increasing demands include significant cost pressures emerging from 'Agenda for Change' and the Consultant Contract. The risk of non-achievement of financial plans and also statutory targets remains over the longer term.

2.3 In 2004/2005, the Hospital had a cumulative surplus of £1.994 million against its revenue resource limit. This includes a brought forward surplus of £1.948 million from the previous financial year. The balance carried forward has been earmarked for use as follows:

- £1.5 million for the Hospital redevelopment project;
- £200,000 for a late allocation received for the costs of the Mental Health Act;
- £185,000 for discrete projects carried forward; and
- Around £100,000 of other funds.

2.4 In 2005/2006 the Hospital is forecasting a potential deficit of £43,000. This position is achieved after carrying forward funds from the previous year and identifying non-recurring savings. Detailed work will be carried out by budget holders and finance staff during the year to establish further savings to ensure the deficit is reduced and financial targets are met. The SEHD has recently agreed a capital to revenue transfer of £2.5 million for 2005/2006. An equivalent transfer was agreed in 2004/2005. The Hospital has yet to assess the impact of the end of capital to revenue transfers in March 2006 but feels it is in a good position as it has used these funds to target areas of backlog maintenance. We will monitor the financial position through 2005/2006.

### Workforce Planning

2.5 The State Hospital has secured funding from the West of Scotland Workforce Planning Group for the development of management information systems to support workforce planning but there remain significant risks in relation to current workforce information systems and their ability to support planning and development. There is also a need for the Hospital to implement workforce development strategies which are fully integrated into all service activities and planning. Changes in clinical practice resulting in more specialisation, shared services developments, Agenda for Change and progress in developing regional planning are all major factors which increase the complexity and risks in workforce planning.



- 2.6 The Hospital had a training plan in place for 2004/2005 and a provisional plan in place for 2005/2006 which set out all courses available and the training budgets for each department. A Learning Strategy has been developed which sets out the outcomes for patients, staff and the Hospital of achieving this strategy and how the successes of the strategy will be measured. There is a Learning and Development Action Group in place to review the strategy. The funding secured has been used to fund the position of a workforce planner who took up post in July.
- 2.7 The Hospital has an action plan in place in response to the Nursing Workload and Workforce Planning National Agenda which has been agreed through the partnership forum. The Hospital is also represented on the West of Scotland Workforce Planning Group and active in the development of Workforce Planning for Forensic Mental Health across Scotland through the Forensic Network.
- 2.8 We will continue to review the position with regards to workforce planning and consider it as part of our risk assessment for 2005/2006.

### Consultants Contract

- 2.9 The Hospital estimated that the new consultants contract would cost £130,000 from 2003 to 2005. The Hospital has 10 consultants. They have all signed up to the contract and back dated pay awards were made in March 2005. The actual costs of the new contract was £280,000. This increase on estimate was due to consultants being paid for extra activity which had previously not been budgeted for. The SEHD required that by 31 March 2005 each NHS organisation check the actual implementation of the contract and developed action plans to address emerging issues. Internal Audit was carried out by the Hospital's Internal Auditors. They concluded that the Hospital has made significant progress towards full implementation of the contract in line with national guidance. Five action points were highlighted which have been agreed and Internal Audit will follow-up these recommendations in 2005/2006. We will monitor implementation of these recommendations.

### Agenda for Change

- 2.10 The Hospital has estimated the additional costs of Agenda for Change using a cost model produced by the SEHD. Hospital staff have previously received additional payment due to the special nature of the Hospital. Provision for this is not set out in the Agenda for Change agreement but these allowances have now been agreed locally. The Hospital has now agreed annual leave entitlement with all affected staff and is currently working on job descriptions. The Hospital has provided £490,000 in their 2004/2005 accounts for additional pay costs. The basis of this estimation has been reviewed and appears to be adequate given the current information. The Hospital has estimated that pay modernisation will cost an additional £650,000 in 2005/2006. One of the key assumptions in the 2005/2006 revenue budget is that pay modernisation estimates are realistic.

## Longer Term Risk Areas

2.11 In our audit plan, we highlighted two longer term risk areas that would have an impact on the Hospital in future years:

- shared support services; and
- eProcurement.

2.12 We also identified two further long term areas of risk during the course of our audit:

- redevelopment of the Hospital; and
- the new Mental Health Act.

2.13 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 wrote our plan.

## Shared Support Services

2.14 The National Shared Support Services project covers 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.

2.15 The shared services project will significantly reduce the number of staff although a national commitment has been given that there will be no compulsory redundancies. 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.

2.16 The Board has estimated their contribution at £50,000. Over the coming year we will maintain a watching brief to see how national developments impact locally.

## eProcurement

- 2.17 eProcurement was due to be implemented from 2005 as part of a national initiative being progressed by National Services Scotland and estimated to save NHSScotland £50 million. 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.
- 2.18 We will monitor any progress in this area and the impact on internal control during the 2005/2006 audit.

## Redevelopment of the Hospital

- 2.19 Approval of an outline business case to rebuild a significant proportion of the Hospital's estate was granted by the Scottish Executive in June 2004. Legal advisors and a project manager have now been appointed and a Redevelopment Board was established in March which meets on a monthly basis. The full business case for redevelopment is due to be submitted in March 2006 and an estimated completion date of late 2009 has been set. The Hospital has already met with a representative from our public private partnership (PPP) unit to discuss accounting and related issues. It has not yet been decided if the rebuild will follow the PPP route or whether it will be directly funded. We will monitor developments in this area and consider the accounting treatment if a PPP route is followed.

## Mental Health Act

- 2.20 The Mental Health Act comes into force in October 2005. The Act reinforces the importance of listening to carers and emphasised the right of access to independent advocacy and greater information and involvement for patients detained under the mental health legislation.
- 2.21 The Hospital has set up a Mental Health Act Implementation Group who monitors the Hospital's progress with implementing the Act and reports to the Chief Executive. Progress has been made in several areas: a tribunal centre will be up and running by September 2005 and nominations have been received for Named Persons. The Hospital has highlighted risks in several areas including lack of adequate training and staffing, additional burden on an already strained advocacy service and waiting lists for care and treatment.
- 2.22 The Hospital has estimated that recurring funding of £960,000 is required over the next three years to support the implementation of the Act until the redevelopment of the Hospital is achieved. To date only £235,000 of this funding has been received. It is critical that this funding is secured so that the Hospital can continue to meet its statutory requirements. **(Risk Area 1)**

---

## 3. Financial Statements

---

### Introduction

3.1 This section sets out our responsibilities for 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 Hospital's 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 Hospital.

### The Financial Statements

3.3 Our comments on the financial statements of the State Hospital for 2004/2005 cover four key areas. These are:

- the independent auditor's report on the financial statements;
- the Hospital'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 the State Hospital for 2004/2005.

### The Board's Financial Position

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

- to remain within the revenue resource limit (RRL);

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

Your performance against these three financial targets in 2004/2005 is shown in Table 3.1 below:

Table 3.1  
2004/2005 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource Limit	32.098	30.104	1.994
Capital Resource Limit	1.044	1.042	0.002
Cash Requirement	27.441	27.441	0

3.6 At the start of 2004/2005 a potential deficit of £552,000 was identified. This was reduced to £23,000 through identification of £279,000 recurring savings and applying further non-recurring savings. At the year-end the savings target was exceeded resulting in a £46,000 in year surplus.

3.7 The Hospital has been able to meet its financial targets through an under spend on capital charges, a high level of capital to revenue transfers, a late allocation of £200,000 for the new Mental Health Act (which will be carried forward into 2005/2006) and a carry forward of £185,000 for discrete projects. Stripping out the non-recurring and ring-fenced funding used to support recurring activities, shows that the Board had an underlying funding gap of around £2.8 million (see table 3.2) in 2004/2005 which it successfully managed. However the £2.5 million capital to revenue transfer was used specifically to target backlog maintenance. Therefore the Hospital is of the opinion that they are in a reasonable position to deal with the end of capital to revenue transfers. **(Risk Area 2 and 3)**

Table 3.2  
Funding Gap 2004/2005

Description	£ 000
In year outturn—excluding brought forward surplus 2003/2004	46
Disposal proceeds	(4)
Other capital to revenue transfers	(2,500)
Non-recurring funding applied in 2004/05 required for projects in 2005/06	(399)
<b>Estimated Funding Gap</b>	<b>(2,857)</b>

## The Issues Arising from the Audit

3.8 We reported two main issues to the Audit Committee on 12 July 2005:

- **Closing Balance**—the Hospital's carrying forward balance at the year end is £1.994 million. £1.5 million of this relates to the redevelopment of the Hospital. This funding has been carried forward from 2003/2004, and relates to RRL funding provided for private finance initiative project costs. It has not yet been agreed with the Scottish Executive whether the rebuild will be financed using PFI funding or direct funding. Direct funding may be provided due to the specialist nature of the Hospital. If the direct funding route is agreed the Scottish Executive may recall this funding.
- **Agenda for Change**—the Hospital has made an accrual of costs for the Agenda for Change programme for the period October 2004 to March 2005. This accrual is necessary to reflect the costs falling in 2004/2005 but not yet fully determined by the Hospital. As mentioned previously the Hospital has used a cost model developed by the SEHD to estimate costs. An accrual for £365,000 and a provision for £125,000 have been included within the accounts. We have reviewed the accrual and provision and their basis and found these to be a reasonable estimate.

## Statement on Internal Control

3.9 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:

- establishment of formal staff training programmes to further raise awareness of risk and internal control;
- reviewing and relaunching the incident recording policy and procedures; and
- developing performance information at a local level to underpin the Hospital's objectives;

3.10 We will monitor progress on these issues during 2005/2006 to ensure that the State Hospital continues to develop its internal control framework across the whole system.

---

## 4. Performance Management

---

### Introduction

4.1 This section covers our assessment of the way in which the State Hospital secures value for money in the use of its resources. This year we focussed on two main areas:

- performance management information systems; and
- occupational health and safety.

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. Initial discussions with officers suggest there has been some progress with local arrangements but these have still to be fully developed. We intend to focus on this area as part of our audit in 2005/2006. (**Risk Area 4**)

### Performance Management Information Systems

4.3 The Hospital has worked with the SEHD to develop its own performance accountability framework. Reporting to the Board is on an exception basis where areas of improvement and areas of concern are highlighted to the Board. The Board has yet to develop indicators for involving the public and communities but these areas will be addressed in 2005/2006. The Hospital also benchmarks performance with its three counterparts in England.

4.4 Performance management could be improved. Currently performance reporting to the Board is limited to the Performance Accountability Framework (PAF) indicators, revenue and capital position and discharges and transfers. More needs to be done to ensure objectives and performance measures cascade through the organisation which flow from the local health plan. This issue was highlighted within the statement of internal control. The Hospital has developed an information collection system which will be rolled out in 2005/2006. (**Risk Area 5**)

### Occupational Health and Safety

4.5 The Occupational Health and Safety Quality Improvement Standards and Self Assessment Tool for NHSScotland Occupational Health and Safety Services was launched in January 2005. The standards form part of the NHSScotland Occupational Health and Safety Peer Review Process. We were asked by management to review the Hospital's self assessment against these standards and resultant action plan. The findings from our audit will be considered in the Performance Assessment framework and inform the SEHD Accountability Review process.

4.6 We found that in the main the self assessment process was robust. There was only one area where we disagreed with the Hospital's self assessment. There was also one area where the Hospital assessed that it did not meet the required criteria. The Hospital has incorporated the recommendations from this report into their Health and Safety action plan.

## 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;
  - Staff governance; and
  - Corporate governance (including financial aspects).

### Clinical Governance

- 5.2 Quality Improvement Scotland (QIS) has defined clinical governance as the system for ensuring that healthcare is safe and effective and the public are involved. Our review of clinical governance focused on the work of the Clinical Governance Committee and reference to QIS's local interim report: *Clinical Governance and Risk Management Arrangements in NHSScotland*.
- 5.3 The Clinical Governance Committee meets four times a year and discusses complaints, discharges and transfers, incidents review, risk management and special topics such as human rights, infection control and public focus patient involvement as necessary. The Committee held an annual review in April and has also produced an annual report. The annual review which was carried out by the non executives of the committee concluded that year on year improvement had been achieved and that improvement had occurred in areas of concern.
- 5.4 QIS noted that the Hospital has a well developed clinical governance strategy that appears to be implemented effectively. They did state that committee structures (Board, Hospital Management Team and committee) could be clarified to highlight who has responsibility for overseeing rather than delivering, supporting and practising roles. Up to date organisational charts could help to show the governance pathways and relationships in terms of reporting and accountability and the risk register could be used to set the governance agenda for the Clinical Governance Committee. They concluded that strategic development and operational delegation of clinical governance is in line with the principles of single system working but is only partially reflected in organisational frameworks.

### Compliance with the NHSScotland Staff Governance Standard

- 5.5 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 Staff Governance Standard. The aim of this standard is to improve the way staff are treated in NHSScotland and to improve accountability for making this happen. 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.



- 5.6 Overall, we concluded that the State Hospital has made progress in delivering the agreed action plan for 2004/05, the self-assessment has been robust and the 2005/2006 action plan is credible and owned.
- 5.7 The agreed actions from 2005/2006 action plan identified a number of key areas for improvement including:
- embedding ownership for achievement and maintaining staff governance standards into management objectives;
  - review of Internal Communications Strategy;
  - establishing processes to assess and monitor the impact of training interventions and people development;
  - development of an action plan to support implementation of Learning Strategy; and
  - development of an action plan to ensure compliance with Working Time Directive.
- 5.8 We will monitor the Board's progress in delivering the 2005/2006 action plan during financial year ending 31 March 2006.

## Corporate Governance

- 5.9 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 paras 3.5 to 3.7
- 5.10 We also relied on the work of internal audit to give us assurance in these areas, and we also looked at four specific areas of risk to see what governance arrangements were in place to manage them:
- fixed assets;
  - aspects of payroll, creditors, stores and budgetary control;
  - consultant's contract; and
  - information management.

Our findings are set out below.

## Fixed Assets

- 5.11 Fixed assets are a significant item on the balance sheet for the Hospital therefore any failure of control could represent a significant risk to the Hospital. Our review focused on capital information provided to the Hospital Board, budgetary control of projects, ownership, identification and classification and recording of fixed assets. No significant weaknesses were found and matters arising have been reported to management separately.

## Payroll, Creditors, Stores and Budgetary Control

5.12 Aspects of these systems were tested by internal audit and ourselves. This work provides additional assurance on the financial statements and the statement of internal control. No significant weaknesses were found and matters arising have been reported to management separately.

## The Consultants Contract

5.13 The new Consultant's Contract was implemented on 1 April 2004 and backdated to 1 April 2003. We took assurance from Internal Audit's work that the Consultant Contract was implemented effectively and in accordance with circular PMT 16. Internal audit concluded that the Hospital has made significant progress towards full implementation of the contract in line with national guidance. However they did note a number of areas where further work is required. These have been highlighted in an action plan and agreed with management. The Hospital along with all other boards will be required to demonstrate, in the near future, that the additional investment in the health economy will produce tangible and visible benefits through pay modernisation.

## Information Management

5.14 Two audit reviews have been carried out in the year covering information management. The first piece of work commented on the Hospital's readiness for the mandatory upgrade to BACSTEL-IP. Our audit work focused on the Board's preparedness for the mandatory changeover from the existing Bank Automated Clearing Service (BACS) to the new BACSTEL-IP system by the end of December 2005.

5.15 We concluded that plans were in place to changeover to the new BACSTEL-IP system although the Board is dependent on other parties to achieve the deadline date. We have advised management, therefore, to obtain assurances from its IT services contractor that the upgrade to BACSTEL-IP will be completed in time for the December 2005 deadline.

5.16 The second review concentrated on the extent of policies, procedures, training and management structures currently in place for information management and a review of certain aspects of the website. The review found the controls in place to be adequate but in several areas the Hospital is only at the development stage. Issues of security and terms of reference were highlighted in relation to the Hospital's website. A report on information management has been issued separately to management and an action plan agreed for all risk areas highlighted.

---

## 6. Looking Forward

---

- 6.1 This report represents the conclusion of our audit of the State Hospital in 2004/2005. The Hospital faces significant challenges in 2005/2006 and beyond. Meeting its financial targets and producing a balanced budget will become more difficult as significant cost pressures emerge including pay modernisation and the end of capital to revenue transfers.
- 6.2 Redevelopment of the Hospital - Legal advisors and a project manager have now been appointed and the full business case is due to be submitted in March 2006. Our review of this capital project will be provided at a later stage.
- 6.3 Mental Health Act: - This comes into force in October 2005. The Hospital is well placed to meet some of the new requirements but has highlighted the risks and difficulties involved in meeting the requirements of the Act, including funding over the interim until the Hospital redevelopment is complete.
- 6.4 Workforce Planning —developing workforce planning to ensure that it is integrated with longer term service developments.
- 6.5 Pay Modernisation —demonstrating improvements in patient care through the implementation of pay modernisation.
- 6.6 Shared support services —managing the impact of national shared support services on the Hospital's staff and resources.
- 6.7 eProcurement —progressing the implementation of the national system and realising the cost efficiencies projected.
- 6.8 Accountable officers have a duty to ensure that arrangements are in place to secure best Value. There has been limited development of an overarching framework to demonstrate Best Value in the Hospital. We intend to focus on this area as part of our audit in 2005/06.
- 6.9 These areas and the controls put in place by management to address these issues will be subject to audit review during 2005/2006.

## Key Risk Areas & Planned Management Action

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
1	2.22	The Hospital has estimated that recurring funding of £960,000 will be required to meet the requirements of the new Mental Health Act. This funding has not yet been confirmed and if not received there is a risk the Hospital could fail to meet their duties under the Act or incur a financial deficit.	This was a broad estimate and we are prepared to benefit from experience as the Act is implemented. The impact both operationally and financially will be assessed. In 2004/2205 we have invested in three key areas- consultant psychiatrist, mental health officers and an advocacy project.	Chief Executive Officer	March 2006
2	3.7	The Hospital has relied on applying unspent non-recurring funding to balance its budget and meet in-year financial targets: There is a risk that this can't be sustained in the longer term to manage the financial position and a deficit in incurred in future.	The Hospital will continue to review its cost base to move to recurring balance.	Finance Director	March 2006
3	3.7	The Hospital has received significant capital to revenue transfers in previous years. This option will cease in March 2006. There is a risk the Hospital will not be able to meet its financial targets when this transfer option is no longer available.	There has been significant investment in backlog maintenance over the last three years and there is a new hospital build on the horizon. We will have to prioritise over the next few years.	Finance Director	March 2006

Risk Area	Refer Para. No	Risk Exposure	Planned Action	Responsible Officer	Target Date
4	4.2	There has been some progress with local arrangements to secure Best Value but these have still to be fully developed. The Hospital Board may therefore be unable to demonstrate that it has secured Best Value.	The Hospital plans to benchmark itself against the draft guidance and address any gaps identified.	Chief Executive	March 2006
5	4.4	The Hospital has recognised that performance management information could be improved. If this is not progressed there is a risk that the Hospital Board is not being provided with adequate performance information. In the absence of this information Board decisions may not be fully informed.	We have invested in a new post to support performance management in 2005/2006; This will progress this key area.	Finance Director	March 2006

*Audit Scotland, on behalf of the Auditor General for Scotland, is responsible for:*

- *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*
- *providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money*
- *providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements*