



HENDERSON LOGGIE

Fife Health Board

**Report to the Board Members and
the Auditor General for Scotland**

Audit Year to 31 March 2006

July 2006

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Executive Summary

1.1 Financial statements and performance

- 1.1.1 On 27 June 2006 we issued our audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2006 and on the regularity of financial transactions reflected in those financial statements.
- 1.1.2 The Board achieved all three financial targets, reporting a saving against the Revenue Resource Limit (RRL) of £4.582 million. The Board had projected in its initial financial framework a saving of £0.353 million assuming the achievement of a reinvestment target of £6.954 million.
- 1.1.3 The Board received £18.2 million of non-recurring funding. The savings against RRL was underpinned by the use of £6.1 million of unspent non-recurring funding. Of the carry forward non-recurring funding from 2004/05 of £5.4 million, £2.6 million remained as unspent at 31 March 2006.
- 1.1.4 In 2005/06 the Board achieved £7.6 million of savings made up largely of a reduction in prescribing costs of £4.0 million and unutilised central reserves of £2.0 million. It is unclear the extent of savings achieved against the 36 previously identified savings schemes. The four NHS Fife-wide savings initiatives comprise one cash-releasing scheme and three time-releasing schemes. The former has not yet achieved cash-releasing savings and notional values have not yet been attributed to the latter.

- 1.1.5 The Board has approved a breakeven financial plan for 2006/07 which assumes the achievement of a reinvestment target of £1.7 million. The Board continues to have an underlying recurring funding gap, and non-recurring funding and measures will again have an impact on the achievement of financial targets in 2006/07.

1.2 Corporate governance

- 1.2.1 The Board's governance arrangements have continued to strengthen with the Board's Code of Corporate Governance undergoing revision during the year. There are some areas for further improvement, including addressing the issues highlighted in the Board's Statement on Internal Control concerning governance arrangements of the Board's Remuneration Sub-Committee. Agreed improvement actions have been recognised and planned for.
- 1.2.2 The Board's financial governance arrangements have also improved, building on the progress made in 2004/05.
- 1.2.3 Progress continues to be made in developing joint working arrangements, including the involvement of the internal audit services of the Board and Fife Council in undertaking joint reviews and reporting.
- 1.2.4 Three new Community Health Partnerships (CHPs) and a single Operational Division were created on 1 April 2005. Interim arrangements were replaced with final governance arrangements in August 2005. Our report on our assessment of the new arrangements for CHPs will be issued shortly, however there are no major areas of concern.



Executive Summary

1.2 Corporate governance (Cont'd)

- 1.2.5 Subject to those matters highlighted in the Statement on Internal Control, the Board's internal audit service provided the Board with positive assurances in regard to the internal controls operating at the Board.

1.3 Performance management

Planning and performance management

- 1.3.1 The Board rolled forward its 2004/05 local health plan into 2005/06 while developing a local delivery plan for 2005/06 and a balanced scorecard to map out and monitor performance against planned objectives. The Board approved this new approach on 29 November 2005 and received its first performance report at its meeting on 28 March 2006.
- 1.3.2 The lack of formal performance reporting resulted in a separate disclosure in the Board's Statement on Internal Control for 2005/06. The framework for regular performance reporting is now in place and formal reporting is planned for 2006/07.
- 1.3.3 There is greater linkage of the local delivery plan and balanced scorecard with the individual objectives of the directors.

Efficient government

- 1.3.4 In common with many health boards in Scotland, for 2005/06 the Board did not have a system in place for monitoring, measuring and reporting on the five streams of the Efficient Government initiative. Management has recognised that further work will be necessary in this area.

Information management

- 1.3.5 The Board approved its eHealth strategy during 2005/06. A number of issues remain to be addressed to ensure the strategy is comprehensive and that it is effectively implemented. The Board's IT security policy requires revision to ensure it complies with national standards and is appropriate to need.

Staff governance

- 1.3.6 The self-assessment process has not been as robust as in previous years and the need for a more robust process in 2006/07 has been recognised by management. The updated action plan appears credible and owned and the timescales for delivery of the agreed actions are reasonable on the basis of the evidence evaluated.
- 1.3.7 While progress is being made year on year a number of action points have been carried forward from previous year's action plans. Sufficient resources require to be deployed to ensure that these actions are delivered in 2006/07 and are not again deferred.



Introduction

2.1 Introduction

- 2.1.1 We are pleased to submit our fifth annual report covering significant matters arising during the course of our audit of Fife Health Board for the year-ended 31 March 2006.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our long term Strategic Plan. The audit scope and the respective responsibilities of Board members and auditors are set out in the appendix to this report.
- 2.1.3 Broadly the scope of our audit was to
- ❑ provide an opinion on the financial statements and the regularity of transactions in accordance with the standards and guidance issued by the Auditing Practices Board;
 - ❑ review and report on the Board's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Board's financial position; and
 - ❑ review and report on the Board's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.
- 2.1.4 Our audit approach focused on the identification of strategic business risk and operational and financial risks impacting on the Board.

2.2 Basis of Information

- 2.2.1 External auditors do not act as a substitute for the Board's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.
- 2.2.2 We have issued a number of reports incorporating action plans for 2005/06. Some of the main points from those reports are summarised in this report.
- 2.2.3 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Board. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.3 Acknowledgement

- 2.3.1 Our audit for this year and the previous four years has brought us in contact with a wide range of Board staff. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by staff in the discharge of our duties.



Audit Completion and Certification

3.1 Audit Completion

3.1.1 The target date set by The Scottish Executive Health Department (SEHD) for submission of the 2005/06 audited accounts of the Board was 30 June 2006, one month earlier than for previous years. We are pleased to report that the target date for the audit completion and certification of the annual accounts was met. The Board approved the accounts for the financial year ended 31 March 2006 on 27 June 2006. We signed our audit reports on the same day.

3.2 Accounts Certification

3.2.1 Our Management Letter, *2005/06 Year-End Audit Key Issues Report 2006/07*, was presented at the Audit Committee meeting on 23 June 2006 at which the financial statements of the Board were considered and recommended for Board approval. The Management Letter set out commentary on audit certification issues, including those relating to the financial statements, the regularity of transactions, the Statement on Internal Control and the Board's Summarisation Spreadsheet. We set out below a summary of the audit certification issues:

- The financial statements give a true and fair view of the state of affairs of Fife Health Board as at 31 March 2006.

- In all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
- The Statement on Internal Control was unqualified and the Chief Executive had made appropriate disclosures and the content of the statement was not inconsistent with information arising from our audit work.
- The Summarisation Spreadsheet was consistent with the financial statements.

3.2.2 Members wishing further information on audit certification issues should refer to our Management Letter Report 2006/07 issued on 20 June 2006.



Annual Results and Financial Performance

4.1 Introduction

- 4.1.1 The purpose of this section is to provide information on the annual results and financial performance of Fife Health Board for the year to 31 March 2006.
- 4.1.2 The move to an accounts and audit closure deadline of 30 June in 2005/06, while a challenge, was achieved. The accounts preparation and audit process was well managed, picking up on the much improved position achieved in the previous year. We commend the finance staff for the high standard of working papers provided in support of the draft financial statements and for their positive contribution towards the accounts and audit closure process.

4.2 Financial Targets

- 4.2.1 Boards are now set three limits by the Scottish Executive:
- a Revenue Resource Limit;
 - a Capital Resource Limit;
 - a Cash Requirement.

4.3 Financial Out-turn

- 4.3.1 In 2005/06 the Board stayed within all three targets.

Table 1 – Financial Targets

Financial Target	Objective 2005/06	Actual 2005/06
Revenue Resource Limit	£462.830m	£458.248m
Capital Resource Limit	£9.885m	£9.789m
Cash Requirement	£445.214m	£439.956m

Source: Financial Statements

- 4.3.2 The achievement of the Revenue Resource Limit was again met this year through a combination of recurring and non-recurring savings, and non-recurring monies and other measures, including the standard SEHD facility for capital to revenue transfer, the use of carry forward funding, other expenditure deferred into 2006/07, and slippage in the use of ring-fenced monies.
- 4.3.3 The Capital Resource Limit was originally set at £12.084 million excluding approved carried forward funding of £5.600 million, a 2004/05 underspend of £0.607 million and in-year specific allocations of £3.725 million. After a capital to revenue transfer of £2.442 million the target stood at £19.574 million. With the agreement of SEHD the Board has, as part of a rolling process to accumulate capital funds to support the General Hospitals project, carried forward a facility of £9.689 million from the 2005/06 limit for use in the capital budget in 2006/07, thus reducing the target for 2005/06 to £9.885 million. An underspend of £0.096 million against the revised target has been carried forward to 2006/07.
- 4.3.4 The Board fell within its cash limit for 2005/06.



Annual Results and Financial Performance

4.4 Financial Performance

4.4.1 Financial performance in one sense can be measured by securing financial balance in year and in that regard the Board met its financial targets while also reporting an overall underspend of £4.582 million. As stated above the achievement of the underspend came about through various means.

4.4.2 In terms of performance against the approved financial plan, initial calculations, without allowing for further income but incorporating a reinvestment target for internal savings of £6.954 million, projected an underspend of £0.353 million. This figure shifted over the year, with changing circumstances in both of those aspects and through slippage in expenditure, to an underspend of £4.582m at the year end. As required, the financial plan reported to the SEHD did not change throughout the year. The plan reported a projected excess against RRL of £0.346 million, again assuming no further income and the achievement of the reinvestment target.

4.4.3 Financial reporting to the Finance and Resources Committee and the Board throughout the year highlighted on-going changes in projected year-end forecasts. The reports to the Finance and Resources Committee and the Board consistently highlighted projected outturn underspends, with explanations given for the main contributory factors.

4.4.4 The performance against the reported financial plan is set out below:

Table 2 – Financial Performance against plan

Revenue Resource Analysis	Actual £m	Plan £m	Variance £m
Clinical Service Costs	491.788	452.677	39.111
Non-Clinical Costs	24.780	40.819	(16.039)
Total Gross Expenditure	516.568	493.496	23.072
Miscellaneous Income	37.722	27.837	(9.885)
Net Operating Costs	478.846	465.659	13.187
FHS and LHC	20.598	18.881	(1.717)
Net Resource Outturn	458.248	446.778	11.470
Revenue Resource Limit	462.830	447.124	15.706
Savings/(excess) against RRL	4.582	0.346	4.236

Source: Financial statements and SEHD Monitoring return

4.4.5 The outturn savings against RRL includes £6.057 million of unspent non-recurring funding, including £2.591 million from the £5.4 million underspend brought forward from 2004/05 and £0.957 million of unspent Waiting Times Funding. Other ring fenced allocations suffered slippage in expenditure in 2005/06 resulting in unutilised funding of £2.509 million.

4.4.6 The Board received additional recurring allocations of £45.039 million during the year to facilitate additional clinical spend however clinical services were overspent against budget for the year.



Annual Results and Financial Performance

4.5 Financial Planning for 2005/06

- 4.5.1 Financial planning for 2005/06 identified the potential for a financial imbalance within the Fife NHS system. The main issues were highlighted in the 2005/06 Financial Framework & Revenue Budget proposal for 2005/06 that was approved by the Board on 31 May 2005. The Framework identified that despite a substantial uplift of 8.65% in funding for 2005/06, if all assumptions made at that time were borne out, there would be a need to generate internal savings of up to £6.954 million to cover the impact of anticipated expenditure in 2005/06 and create a small surplus.
- 4.5.2 During 2004/05 the Challenge Group, a sub-group of the Board’s Strategic Management Team, identified the potential for cost reductions across five broad areas of procurement, estate, managerial/staffing, clinical and miscellaneous. These areas were concerned with strategic and system-wide opportunities and would be taken forward in addition to the normal savings actions taken as part of budget management at both Divisions.
- 4.5.3 The Challenge Group has considered various savings initiatives and the scope for in-year and recurring savings. In total 36 savings schemes were identified by March 2005. It was anticipated that these would generate savings of £5.077 million in 2005/06.
- 4.5.4 Following up on our recommendation in our 2004/05 Report to Members, the Finance and Resources Committee took a more active oversight role in obtaining periodic updates on savings achieved in-year. At its meeting on 20 December 2005 an update paper from the Challenge Group was presented showing savings achieved to date of £7.705 million.

- 4.5.5 The outturn savings position against the estimates made previously for the savings schemes is as follows:

Table 3 - Summary of savings achieved

Scheme Details	No. of scheme elements	Target estimated savings 2005/06 £m	Actual savings 2005/06 £m	Variance 2005/06 £m
General Issues	3	1.398	2.600	1.202
Procurement	11	0.816	0.370	(0.446)
Estate & facilities	12	1.269	0.645	(0.624)
Organisational Change	3	0.000	0.000	0.000
Clinical	5	1.550	4.000	2.450
Miscellaneous	2	0.044	0.000	(0.044)
Total savings targets	36	5.077	7.615	2.538

Source: Information provided by Assistant Director of Finance

- 4.5.6 The savings have been reported to SEHD and show a split between recurring savings of £5.775 million and non-recurring savings of £1.840 million.
- 4.5.7 Outwith the specific savings schemes the Board has recognised the need for improved efficiencies around four principal areas of the service. These cover costs associated with “Did not attends” (DNAs), locum, bank and agency staff costs, delayed discharges and absence levels. The Challenge Group’s update to the Finance and Resources Committee in December 2005 highlighted that no quantified savings had been achieved. It is recognised that the potential savings from these areas will be a mix of time and cash releasing savings.



Annual Results and Financial Performance

4.5 Financial Planning for 2005/06 (Cont'd)

Audit comment

- 4.5.8 We welcome the approach now being taken by the Board in investigating opportunities for internally generated efficiency and cash releasing savings.
- 4.5.9 Progress around the initiatives has been taken forward at various levels and to different timeframes. While the summary of savings status report at March 2005 identified target savings for 2005/06 the reporting of savings achieved in-year against these targets has not followed the same format and it is not clear from the financial reporting arrangements at the Board the scale to which the targets have been met. This lack of transparency requires to be addressed.
- 4.5.10 Of the reported savings totalling £7.615 million shown in Table 3 above, much in our view stems from slippage of expenditure or from changes in costs that are largely outwith the control and influence of the Board. Unused central reserves and provisions account for £2.025 million, which together with a reduction in the prescribing cost of £4.0 million, accounts for over 79% of the reported savings. As stated above while the Board has established specific savings schemes it is not clear the extent to which these schemes have generated savings and to what degree.
- 4.5.11 It is disappointing to note there has been no reported quantified savings (real or notional) achieved in respect of the four areas identified for NHS Fife-wide efficiency gains. The requirements of the Efficient Government initiative will demand greater focus on delivering savings and for these to be monitored and reported.
- 4.5.12 While an overall saving of £4.582 million against the RRL was achieved, excluding the unspent non-recurring funding the Board's net position is an overspend of £1.475 million. This indicates a recurring funding gap that has not been addressed through savings initiatives at strategic or operational level. The bridging of the overspend has been made through non-recurring means.



Annual Results and Financial Performance

4.6 Financial Planning for 2006/07

4.6.1 For the purposes of this report we have summarised the projected 2006/07 financial position for NHS Fife in the table below:

Table 4: Financial Framework 2006/07

Expenditure	£m	£m	£m
Clinical Services - Local			
Operating Division	167.3		
Community Health Partnerships	88.3		
Primary Care Services/ PMS	138.5		
Depreciation of buildings	10.8		
		404.9	
Clinical Services – Other		73.0	
Total Clinical Services			477.9
Non-Clinical Costs			
Administration		24.4	
Other		7.1	
Specific reserves and contingencies		21.0	
Total Non-Clinical Costs			52.5
Total Forecast Expenditure			530.4
Income			
Carry forward underspends (estimate)		4.8	
Allocations		523.9	
			528.7
Shortfall against Income			(1.7)
Reinvestment target			1.7
Excess against RRL			0.0

4.6.2 In approving the Financial Framework the Board has built in a reinvestment target of 0.4% (£1.540m) of the forecast expenditure (excluding Primary Care Services/PMS) to be achieved in order to help fund service enhancements, new pressures, the development reserve and the Efficient Government savings target.

4.6.3 Subsequent to the approval of the Financial Framework an updated position reflecting the predicted recurring funding gap for 2006/07 has been prepared by management. The position is as noted in the table below:

Table 5 – 2006/07 Funding Gap

Fife Health Board	£m	£m
Recurring income	526.853	
Recurring expenditure	527.814	
		0.961
Underlying recurring deficit		
Non-recurring income	8.597	
Non-recurring expenditure	7.636	
		0.961
Balance of non-recurring		
2006/07 funding gap		0.000
Other Income	0.000	
Non-recurring SEHD revenue/year end support	0.000	
Corporate savings programme	0.000	
		0.000
Total other income		
Projected financial surplus/(deficit) for 2006/07		0.000

Source: Information provided by Assistant Director of Finance



Annual Results and Financial Performance

4.6 Financial Planning for 2006/07 (Cont'd)

Audit comment

- 4.6.4 It is not clear from the Financial Framework or other finance papers submitted to the Board or its Finance and Resources Committee the extent of the Board's expenditure and income that are of a recurring nature. Although details are maintained of recurring and non-recurring income and expenditure, this is not used to better illustrate to Board and Finance and Resource Committee members the underlying funding gap position. Further when reporting the achievement of savings it is important that these are classified as recurring and non-recurring, as appropriate, to allow easier interpretation of the Board's move towards securing recurrent balance.
- 4.6.5 There is no indication that for future years non-recurring measures will cease to be a factor in securing in-year financial balance.
- 4.6.6 The ability to deliver the reinvestment target of £1.7 million will depend upon active and focussed budget management at operational level and the achievement of savings from the savings initiatives. The level of unutilised non-recurring monies carried forward to 2006/07 may provide the Board with the opportunity to meet its financial targets through the non-reinstatement of funding for previously earmarked projects. This is stated as an option in the Financial Framework. The non-reinstatement of monies, while this may be justified in itself, does only provide a one year non-recurring funding benefit.
- 4.6.7 The work of the Challenge Group will be critical in ensuring that sufficient and timely resource will be given to develop, approve and implement the strategic and NHS Fife-wide initiatives.
- 4.6.8 We believe it remains imperative that the Board ensures that savings initiatives are taken forward to agreed timescales and that progress is monitored and reported appropriately and with transparency. The responsibility placed on the Board to achieve Efficient Government targets further emphasises the need for the Board to ensure that its arrangements to secure savings are robust and fully accountable.
- 4.6.9 *The Board, through its Finance & Resources Committee, should continue to seek greater clarity as to the underlying financial position on recurring and non-recurring income and expenditure to allow it to identify more precisely the Board's recurring funding gap. This then would allow the Board to understand more fully the funding issues and the scale of the required level and timing of corporate and operational savings and efficiency improvements.***
- 4.6.10 *There should be a greater transparency and consistency in the reporting of savings to the Board and the Finance and Resources Committee to allow for better understanding of the degree of achievement against specific targets. This in turn would aid improved monitoring and earlier remedial action.***



5.1 Governance Arrangements

- 5.1.1 Governance arrangements continued to be further developed during 2005/06. The Board's Code of Corporate Governance (the Code) was revised at various stages during the year with the latest version considered by the Audit Committee on 15 March 2006 and formally approved by the Board on 28 March 2006. Further amendments to the Code will be required to take account of audit findings regarding the need to address the governance arrangements of the Remuneration Sub-Committee.
- 5.1.2 Further improvements have taken place during 2005/06, in particular in the areas of risk management, the development of single-system frameworks in a number of areas and the creation of a robust performance management framework.
- 5.1.3 There are areas where single system policies have not yet been developed and the policies of the three former health bodies in Fife remain in force. The Board however has an Operational Policies Group (OPG) which now controls the development of NHS Fife-wide policies, procedures and control frameworks. A new Policy on policies is being developed by OPG and is due for Board approval in September 2006. This new Policy will identify the process for policy and procedures development and consultation, a plan and timetable for a review of extant policies and procedures and a clarification of responsibilities.

- 5.1.4 Improvements have been made in the format and timeliness of reports to the Board, including the annual reports of the standing committees. Board and Committee papers now require to address financial, staff governance, clinical governance, equalities and risk management implication. This consistent approach will assist Board members to consider the wider issues when asked to make decisions and approve recommendations for action.

Audit comment

- 5.1.5 As the Board's external auditors we have been critical at times regarding the Board's corporate governance arrangements. In this our last year as external auditors we are pleased to report that there has been a considerable improvement in the Board's corporate governance arrangements over the past two years. There are still areas where further work to improve the arrangements is necessary however these are recognised and further strengthening of the arrangements is under way.

5.2 Financial Governance

- 5.2.1 In past years we have highlighted the need for improvement in the financial governance arrangements at the Board. A number of improvements have been implemented over the past two years including the formation of the Board's Finance and Resources Committee, the inclusion in the Local Health Plan of a resource allocation and financial framework, Board development sessions on financial matters, a Challenge Group responsible for driving savings targets and a reliable financial ledger system.
- 5.2.2 Our review of the operation of the Finance & Resources Committee has provided assurance that the arrangement is an effective addition to the Board's governance arrangements with the Committee adding to the challenge role that is required. Board and non-executive member awareness of the financial issues faced by the Board has improved; this greater understanding has allowed the Committee to play its part in the development of an improved financial governance culture within the Board. Financial matters are considered in greater depth and analysis with the Committee challenging key assumptions underpinning financial and investment plans.
- 5.2.3 The financial reporting to the Finance & Resources Committee and then to the Board is now consistent in style and content making it easier to fully map across the considerations and decisions of the Committee to that presented to the Board.
- 5.2.4 There has been improvement in the Board's budgetary control arrangements and the further development of Financial Operating Procedures, Standing Orders and Standing Financial Instructions to better reflect single system working.

5.3 Systems and Controls

- 5.3.1 During 2005/06 we reviewed the systems and controls over a number of financial and non-financial systems in accordance with our revised Strategic Plan 2001/06 and Operational Plan for 2005/06. The key findings were as follows:

- ❑ *Remuneration Sub-Committee Governance Arrangements (17 May 2006)* - , the operation of the Sub-Committee has not fully complied with the NHS Fife Code of Corporate Governance (the Code) throughout 2005/2006 and that the Code requires to be revised to clarify the position of the Sub-Committee. The Sub-Committee acted outwith its power in making decisions on the distribution of its minutes. Neither the Board nor its Staff Governance Committee received minutes from the Sub-Committee during the year. Separate disclosure on these issues was made in the Board's Statement on Internal Control for 2005/06. An agreed action plan to address audit recommendations is being taken forward.

5.4 Joint Working and Joint Future

- 5.4.1 We carried out an overview of the developing arrangements as part of our 2005/06 audit. The action plans from our previous audit reports on Resource Transfer (Report 2003/20) and Joint Arrangements (Report 2005/20) were followed up by Fife Council's Internal Audit Services (Audit Services). The thirteen recommendations in the Resource Transfer action plan have now been implemented. Of the five recommendations in the Joint Arrangements action plan three have been implemented.

5.4 Joint Working and Joint Future (Cont'd)

- 5.4.2 Work to define and agree the role, remit and membership of the Joint Future Finance and Performance Group is ongoing. In the coming weeks we will undertake further work to assess progress of the development of Local Improvement Targets and will report our findings thereafter.
- 5.4.3 Audit Services' report on Single Shared Assessment and the Joint Future Internal Audit Plan for 2006/07 and 2007/08 were submitted to the Board's Audit Committee in May 2006. Audit Services intend that its future progress reports will be issued to both the Board's and the Council's audit committees for approval.

Audit comment

- 5.4.4 We are pleased to note that joint audit work is being undertaken by the internal audit services of the Board and the Council and is being reported to both audit committees. We commend this approach and encourage members to continue it in future.

5.5 Community Health Partnerships (CHPs)

- 5.5.1 The Board created three CHPs and a single Operational Division from 1 April 2005 following approval of the Scheme of establishment for CHPs by the SEHD in March 2005. Interim measures were adopted in March 2005 to deal with the new arrangements from 1 April 2005. Governance arrangements for CHPs were set out in the paper approved by the Board in May 2005 which finalised the Board's new structure, and came into force from 1 August 2005.
- 5.5.2 During 2005/06 we monitored progress with the development of CHPs. In May 2006 Audit Scotland published a self-assessment

checklist for the assessment of governance arrangements in CHPs and recommended that auditors should be involved with Boards in using the checklist. We have worked with the Chief Executive and the three CHP managers to complete the checklist for each CHP. We are currently undertaking an analysis of the findings to allow us to examine areas of consistency and difference and to comment on good practice that can be shared between the CHPs. At this stage there are no areas of major concern. We plan to issue our report in late July or early August.

5.6 Primary Care

- 5.6.1 While there has been an improvement in the control environment at National Services Scotland (NSS) there remain weaknesses that present risk to the payment of primary care contractors. The Service Auditor reported that the overall number of control issues has reduced in 2005/06. No "business critical" issues were identified, although the number of new high priority issues had risen slightly, from two in 2004/05 to five in the current year. There are also five high priority points outstanding from previous years. Based on the evidence available our opinion in relation to the regularity of FHS expenditure was unqualified.
- 5.6.2 Our Management Letter; Report 2006/07; *2005/06 Year-End Audit Issues*, highlighted the results of the work carried out by the Counter Fraud Service around patient exemption checking. The results indicate a degree of ineligible claims and a potential loss of income to the NHS in Fife and to the NHS in Scotland. (Section 7 refers)



5.7 Internal Audit

- 5.7.1 As highlighted in our Operational Plan for 2005/06, we have carried out a review of the Board's internal audit services, FTF Audit and Management Services (FTF) to confirm the extent to which formal reliance could be placed on the processes that support the outputs of FTF in providing an internal audit service to the health bodies in Fife, Tayside and Forth Valley and to the Mental Welfare Commission for Scotland. This involved the examination of work conducted at a local level by the three divisions of FTF in Fife, Tayside and Forth Valley.
- 5.7.2 Our overall conclusion was that, while there are areas for further improvement, FTF are generally complying with the NHS Internal Audit Standards and that external auditors of the user bodies can place reliance on the processes that support the outputs of FTF for audit year 2005/06.
- 5.7.3 As appropriate we sought to rely on the work carried out by the Board's internal auditors. Specific reviews of the internal audit files were carried out and formal reliance was taken on these areas by us in completing our audit. The relevance of internal audit reports and changes to the work plan has been subject to continual review throughout our audit.

5.8 Pay Modernisation

General Medical Services Contract

- 5.8.1 The new contract for General Medical Services (GMS) introduced the Quality and Outcomes Framework (QOF) where practices are financially rewarded for demonstrating achievement against quality standards. Participating practices were subject to practice visits during 2005/06. The Board's internal audit service have reported that processes have been followed and that subsequent payments were in

line with issued guidance. Further they have concluded that overall there were reasonable levels of control in place for ensuring that services provided by NHS Fife GP practices were in line with current guidelines and requirements.

- 5.8.2 All of the GP practices in Fife opted out of providing Out of Hours Service and the Board took over the responsibility for the provision from 12 July 2004. While the service provided is largely compliant with standards this is achieved from what is regarded as a small group of dedicated staff. There are challenges in filling shifts to ensure adequate cover by GPs and this continues to be an area of concern.

New Consultants' Contracts

- 5.8.3 While there is evidence to support the view that the new contract has resulted in an improvement in productivity and corresponding clinical activity, it is not yet possible to fully quantify the financial impact and benefits. Increased clinical activity will inevitably result in additional operating costs, however the benefits will be seen through improved patient access to services and a reduction in waiting times.
- 5.8.4 Various monitoring measures are now in place to assist the Board to better identify the clinical benefits to patients in Fife of the new contract.

Agenda for Change

- 5.8.5 The Board currently employs over 7,000 whole time equivalent staff, approximately 90% of whom are included within the remit of Agenda for Change. The process of job evaluation and matching continued during the year. An estimated liability for backdated awards under Agenda for Change has been provided for in the accounts to 31 March 2006 at £11.64 million.



Performance Management

6.1 Introduction

- 6.1.1 As part of our 2005/06 audit we have considered a number of risk areas facing the Board. This review was based on the Audit Scotland publication *Priorities and Risk Framework: A National Planning Tool for 2005/06*. Key findings from this work have been incorporated into a separate report ***Priorities and Risk Framework: Report 2006/02*** issued on 7 March 2006. We reported that progress had been made on areas covered by the PRF study in 2004/05 and for one of the two new areas covered in the 2005/06 PRF study. There was only limited evidence of progress to develop plans to address the key issues driven by the Efficient Government agenda.
- 6.1.2 Key findings on a number of the risks covered by the PRF have been reported under the Corporate Governance section of this report. Key findings for other risk areas are reported below.

6.2 Planning and Performance Management

- 6.2.1 In January 2005 the Board endorsed the approach to the rolling forward of the 2004/05 Local Health Plan (Plan) to 2005/06 with the development of a Balanced Scorecard to reflect how the Plan would contribute across the strategic and operational activities of the Board, with identified key officers assigned responsibility to deliver the Plan's objectives. The Plan for 2005/06 was later revised to better fit the dynamics of the Balanced Scorecard approach and it, together with the draft Local Delivery Plan for 2005/06 and 2006/09, was endorsed by the Board on 27 September 2005. The 2005/06 Local Delivery Plan and the performance monitoring criteria were approved by the Board on 29 November 2005. The new approach focuses on deliverables, with the Balanced Scorecard providing a "big picture" view of progress.
- 6.2.2 The Balanced Scorecard incorporates 54 specific targets covering four main areas of performance: health improvement/protection; partnership working; patient experience and efficiency.
- 6.2.3 On 28 March 2006 the Board received its first formal performance progress report for the year in the form of a populated and updated Balanced Scorecard. Performance against targets was detailed, with performance colour coded using a traffic light system to reflect the stage of completion of the performance against target. This was followed up in May 2006 with an outturn Balanced Scorecard for 2005/06.
- Audit comment**
- 6.2.4 There has been previous adverse audit comment on the absence of a robust performance management framework at the Board and that performance management reporting to the Board lacked a coherent approach to key drivers and targets. The development and implementation of the Balanced Scorecard and Local Delivery Plan during 2005/06 is clear evidence that the Board has sought to address these specific issues.
- 6.2.5 It is fully accepted by the Board that there will be areas of the planning and monitoring process that will require improvement and that the Local Delivery Plan and Balanced Scorecard for 2006/07 will build on the work undertaken in 2005/06. Central guidance on Local Delivery Plans for 2006/07 will also aid the further development of the Board's performance management and reporting framework.



Performance Management

6.2 Planning and Performance Management (Cont'd)

6.2.6 The Board's Statement on Internal Control for 2004/05 stated that in 2005/06 a Balanced Scorecard technique would be used to ensure that performance against objectives is regularly reported to the Board. While management has worked hard on developing the performance management framework during 2005/06, the Board did not receive formal regular progress reports on performance during the year. This has led to a separate disclosure in the Board's Statement on Internal Control for 2005/06.

6.2.7 We commend the Board and management for taking forward its planning and performance management arrangements and with the framework now in place we fully expect that regular performance reporting to the Board will be actioned in 2006/07.

6.2.8 We also commend the Board for ensuring the linkage of the approved Local Delivery Plan and Balanced Scorecard with the individual objectives of directors and of the role played by the Remuneration Sub-Committee in this.

6.3 Efficient Government

6.3.1 The primary objective of the Efficient Government initiative is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings, and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.

6.3.2 In February 2006 Audit Scotland requested auditors to obtain information from Boards to complete an Efficient Government Diagnostic relating to the five streams of Efficient Government (asset management, managing absence, procurement, shared services and streamlining bureaucracy). Following completion of the diagnostic, which was submitted to Audit Scotland in April 2006, the information for the whole of Scotland was collated and analysed. Collated information was returned to us in June 2006 and was passed to the Director of Finance at that time. We plan to present the results to management at the Executive Team meeting on 1 August 2006.

6.3.3 When we submitted the diagnostic, we reported that Fife did not have a system in place for monitoring, measuring and reporting efficiency savings which contribute to the efficient government plan. We reported that the system for monitoring, measuring and reporting efficiency savings is an evolving process and does not have a specific implementation date. The Director of Finance submitted a report on Efficient Government targets to the Board in March 2006. The report included details of the national and local targets and stated that "the Board is making progress with its local targets". Further reports are to be submitted as matters progress.



Performance Management

6.4 IM&T Strategy and IT Security Policy

- 6.4.1 Following specific disclosure in the Board's 2004/05 Statement on Internal Control the Board approved a new eHealth (IM&T) Strategy in November 2005. Internal Audit continues to report concerns with the lack of an explicit link between the Board's IM&T Strategy to the local operational aims and objectives, especially the Local Health Plan/Local Delivery Plan. Further they comment upon a number of deficiencies in the strategy, its implementation and the lack of formal disaster recovery plans. Work is on going in addressing the need for formal disaster recovery planning and progress reports on this have been reported to the Audit Committee.
- 6.4.2 The Board's IT Security Policy continues to be developed with extant policies being those of the previous three Fife NHS bodies. The policies do not fully comply with national standards.

Audit Comment

- 6.4.3 While the strategy issue which gave rise to the disclosure in the 2004/05 Statement on Internal Control was resolved through the approval by the Board of an eHealth Strategy during 2005/06, there remain a number of issues to be addressed in ensuring the strategy is comprehensive and effectively implemented.
- 6.4.4 The Board's IT Security Policy is long overdue and remains an issue requiring separate disclosure in the Statement on Internal Control. Compliance with national standards is necessary to ensure the Board's policy is robust and appropriate to need.
- 6.4.5 *The Board must ensure the further development and implementation of its revised IM&T/eHealth Strategy and the early finalisation and implementation of a robust and compliant IT Security Policy taking account of national and local needs.***

6.5 Staff Governance

- 6.5.1 Under legislation health boards are required to have in place arrangements for the good governance of staff. Since 2002/03 health boards have been required to complete a self-assessment audit tool (SAAT) and have this submitted to SEHD by 31 March each year. This was again required in 2005/06.
- 6.5.2 As part of our priorities and risk framework audit we reviewed the Board's SAAT and reported our findings to management on 15 June 2006.
- 6.5.3 The updated action plan for 2005/06 and the action plan for 2006/07 were submitted to the SEHD by the 31 March 2006 deadline. The mandatory statistics were produced in accordance with the SEHD instructions and were submitted to the SEHD by the 31 March 2006 deadline and were subsequently forwarded to Audit Scotland.
- 6.5.4 The self-assessment process has not been as robust as in previous years and the need for a more robust process in 2007 has been recognised by management. The updated action plan appears credible and owned and the timescales for delivery of the agreed actions are reasonable on the basis of the evidence evaluated.
- 6.5.5 While progress is being made year on year a number of action points have been carried forward from previous year's action plans. Sufficient resources require to be deployed to ensure that these actions are delivered in 2006/07 and are not again deferred.



Performance Management

6.6 People Management

- 6.6.1 A draft Workforce Modernisation and Development Strategic Plan was submitted to and endorsed by the Board in March 2006. The Plan was subsequently submitted to SEHD on 30 April 2006.

6.7 Regional Planning

- 6.7.1 An agreed regional planning agenda is now in place and the Board is actively participating in driving this agenda forward through the South East and Tayside planning group (SEAT) and a number of SEAT and South East Scotland Cancer Network (SCAN) sub-groups. A mapping exercise for all Managed Clinical Networks (MCNs) has been conducted by SEAT to identify the necessary linkages and there is now agreement that in future any cross-boundary networks will have their work programme signed off by SEAT.

6.8 Financial Plans

- 6.8.1 As identified previously there remains the potential for financial imbalance within the Fife NHS system. Our comments at section 4 of this report highlight the expectation that the use of non-recurring monies and measures will again be a feature in 2006/07. The delivery of internally generated savings from the identified initiatives will be key in ensuring financial balance while facilitating the funding for service enhancements, new cost pressures and development.

6.9 Capital Planning

- 6.9.1 Capital planning within the Fife NHS system will need to be considered in light of the developments that flow from the Right for Fife Strategies and the development and implementation of the Joint Future agenda. Ongoing consideration of estate planning within Fife NHS will be important to ensure appropriate short and long-term requirements are accommodated in a cost effective manner. In this regard the Director of Finance has developed, for submission to the Finance & Resources Committee and the Board, a formal capital plan showing the current and next three years' proposed capital programme. The Committee continues to consider and monitor capital planning issues.
- 6.9.2 In 2004/05 internal audit stated that there continued to be a lack of NHS Fife capital planning and investment control guidelines and a lack of project management guidelines, increasing the risk faced by the organisation in this aspect of its affairs. No formal guidance was available during 2005/06, however draft guidance has now been developed for roll out in 2006/07.



6.10 Best Value

- 6.10.1 While there is no statutory duty of Best Value in the wider public sector, the SEHD issued draft secondary guidance in August 2003 on the duty of accountable officers to ensure arrangements are in place to secure Best Value. While deciding not to bring forward legislation which extended Best Value in the wider public sector, Scottish Ministers wished to encourage and embed the principles of Best Value across the wider public sector. A Best Value and Performance Team within the Scottish Executive were tasked with taking this forward. Revised guidance was issued in April 2006 and included in the Scottish Public Finance Manual. The revised guidance includes a self-evaluation tool for use by health boards.
- 6.10.2 In preparation for the issue of the revised guidance Audit Scotland requested auditors of all health boards to prepare a position statement in relation to the existing guidance. This was undertaken with officers of the Board during May and June 2006. Audit Scotland intends to issue comparative information to all auditors shortly for sharing with clients to allow benchmarking and identification of good practice. Once this has been received we will liaise with officers to determine how best to present the information to the Board.

Legality, Fraud and Corruption

7.1 Legality

Responsibilities

7.1.1 External auditors have a duty to give an independent assessment of the audited body's arrangements for ensuring the legality of transactions that might have a financial consequence. As discussed in section 3 we now have an extra responsibility placed on us by the Public Finance and Accountability (Scotland) Act 2000 to certify on the regularity of transactions included in the Board's accounts.

7.1.2 It is the responsibility of audited bodies and their officers to act within the law. It is the auditor's responsibility to bear in mind the question of legality and to take reasonable steps to inform themselves of significant financial transactions or events that are unusual or of questionable legality, for example by:

- reviewing the arrangements in place within the audited body for ensuring the legality of financial transactions;
- reviewing the minutes of committee and board meetings;
- holding discussions with officers;
- having regard to the audited body's implementation of significant new legislation, significant statutory requirements, and SEHD circulars;
- reviewing the local applicability of relevant national issues;
- taking account of advice issued by Audit Scotland;
- reviewing statutory requirements concerning the financial statements;
- having regard to matters which come to our attention where legality, losses or deficiencies may be an issue.

7.1.3 Where it is believed that a decision by an audited body or officer has incurred, or would involve, unlawful expenditure, or that some action has been, or would be, unlawful and likely to cause a loss or deficiency, then auditors must report the matter. In addition as stated above we are required to report our audit opinion on the regularity of transactions in the audit report placed on the annual accounts.

Findings

7.1.4 We are able to confirm that arising from our review of the legality of transactions there are no issues that we are aware of, or which have been brought to our attention, which require to be reported for 2005/06. Issues arising from our consideration of the regularity of transactions are discussed in our Management Letter; Report 2006/07. Our audit report for the Board included unqualified opinions.

Responsibilities

7.1.5 The primary responsibility for the prevention, detection and investigation of irregularities including fraud and corruption rests with management who should institute an appropriate system of internal control including segregation of duties, proper authorisation and approval processes, reconciliation procedures and an effective internal audit function.



Legality, Fraud and Corruption

7.1 Legality (Cont'd)

Responsibilities

7.1.6 In accordance with the Code of Audit Practice our responsibility is to assess the adequacy of the systems and arrangements made by management to prevent and detect fraud and corruption, and to plan our audit so that we have a reasonable expectation of detecting material mis-statement in the relevant financial statements resulting from fraud or irregularity.

Findings

7.1.7 As an interim measure ahead of the Counter Fraud Service (CFS) Partnership Agreement coming into force the Board's Audit Committee approved in January 2005 an Anti-fraud, Theft and Corruption Policy and Response Plan as part of the revised Financial Operating Procedures (FOPs). This arrangement continued throughout 2005/06. Internal audit has reported that all relevant staff have not been issued with FOPs and that outdated policies remain on the Board's intranet.

7.1.8 The development of the Partnership Agreement between the Board and CFS as required by HDL(2005)5 has been held up pending resolution of specific queries raised by the Board. These relate to the conflict between the Partnership Agreement and national policies on staff and clinical governance. These matters are being taken forward by SEHD, CFS and the Board.

7.1.9 Staff awareness sessions have been held during 2005/06.

7.1.10 As in past years Patient Exemption Checking (PECS) was carried out by CFS across Scotland. The work revealed a potential understatement of income in the Board and across Scotland for 2005. For Fife, the potential understatement was £0.720 million (2004 - £0.725 million). A management report on payments to FHS practitioners was submitted to the Audit Committee in May 2006. Our review of the report and other supporting evidence confirms that the Board has taken appropriate steps in assessing the level of potential exemption fraud and its potential impact on the regularity of income. In our opinion the potential understatement of income is not material and accordingly no qualification of our opinion in relation to the regularity of FHS income was necessary.

7.1.11 There were no first tier fraud reports in the year. A second tier fraud report was issued to Audit Scotland. This identified eleven individual cases of reported fraud below £5,000 per case. In total the estimated loss is £2,133.



Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
4.6.9	<p>Financial Planning for 2006/07</p> <p>R1 The Board, through its Finance & Resources Committee, should continue to seek greater clarity as to the underlying financial position on recurring and non-recurring income and expenditure to allow it to identify more precisely the Board's recurring funding gap. This then would allow the Board to understand more fully the funding issues and the scale of the required level and timing of corporate and operational savings and efficiency improvements.</p>	The Board and the Finance and Resources Committee have commended the robustness and frequency of financial reporting. The format and content of regular reports are kept under review to ensure they remain relevant and robust. This recommendation will be a feature of that ongoing review.	Yes	Director of Finance	Ongoing
4.6.10	<p>R2 There should be a greater transparency and consistency in the reporting of savings to the Board and the Finance and Resources Committee to allow for better understanding of the degree of achievement against specific targets. This in turn would aid improved monitoring and earlier remedial action.</p>	As R1 above.	Yes	Director of Finance	Ongoing



Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date
6.4.5	<p>IM&T Strategy and IT Security Policy</p> <p>R3 The Board must ensure the further development and implementation of its revised IM&T/eHealth Strategy and the early finalisation and implementation of a robust and compliant IT Security Policy taking account of national and local needs.</p>	<p>The eHealth Strategy is based on the national eHealth Strategy Guidance with additions made locally to take account of key areas of risk such as business systems, disaster recovery, and IT security.</p> <p>(a) The eHealth Strategy will be refreshed when national guidance is updated.</p> <p>(b) The IT Security Policy will be signed off by November 2006.</p>	Yes	Executive Lead for IT	(a) Ongoing (b) 30.11.2006



Appendix I - Respective Responsibilities

Respective Responsibilities of Auditors and Board Members

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

Board members' responsibilities for the Statement of Accounts are set out on page 2 of the accounts. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you. We are also required to provide assurance regarding the regularity of income and expenditure included in the Board's annual accounts. We are further required to review the Board's Statement on Internal Control and, where in our opinion full disclosure has not been given, then for us to report accordingly. Additionally we are required to review and confirm the accuracy of the Board's Summarisation Spreadsheet prior to its submission to the Scottish Executive Health Department (SEHD) and certify the expenditure of the Local Health Council.

Scope of the Audit

We audited the accounts under the National Health Service (Scotland) Act 1978. We have conducted our audit in accordance with the requirements of Part 2 of the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, which requires consideration of relevant auditing standards.

Our audit objectives were to consider and assess the following: -

- whether the statement of accounts presents a true and fair view of the financial position of the Health Board;
- the adequacy of the main financial systems;
- the adequacy of the arrangement in place for the prevention and detection of fraud and corruption;
- the performance of particular services and activities;
- the effectiveness of overall management arrangements.

Our audit scope therefore includes wider responsibilities and duties than would be expected of external auditors in the private sector.



Appendix I - Respective Responsibilities

Our audit comprises: -

❑ ***Audit opinion***

The scope of the work required to audit the accounts takes various forms. It includes detailed testing of account balances to substantiate their material accuracy and completeness, and to ensure that the financial out-turn is presented in accordance with approved accounting standards. It also encompasses an assessment of the integrity of the fundamental financial control systems operating during the year, responsibility for the effective maintenance of which rests with management. Our findings are noted in Section 3.

❑ ***Performance Audit***

The performance audit programme undertaken this year was devised by Audit Scotland and included studies on staff governance and Priorities and Risk Framework. We have also carried out a locally determined joint study on the development of Joint Future arrangements at the Board and Fife Council. We will report separately on our work on Joint Future.

❑ ***Overall Arrangements***

We have undertaken an overall review of the effectiveness of management arrangements within the Health Board to secure economy, efficiency and effectiveness in the discharge of its functions. Our work included a review of the Board's further development of its corporate and financial governance arrangements, performance management, risk management, workforce planning, development of Community Health Partnerships (CHPs), internal audit and Best Value.

❑ ***Legality, Regularity, fraud and corruption***

We have also undertaken a review of the procedures implemented to prevent instances of fraud and corruption. Our work also includes specific consideration of the regularity of transactions included in the Board's accounts. Our findings are noted in Sections 3 and 7.



Appendix II - Updated Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
4.6.10	<p>R1 The Board, through its Finance & Resources Committee, should seek greater clarity as to the underlying financial position on recurring and non-recurring income and expenditure to allow it to identify more precisely the Board's recurring funding gap. This then would allow the Board to understand more fully the funding issues and the scale of the required level and timing of corporate and operational savings and efficiency improvements.</p>	The role of the Finance & Resources Committee, and the style and content of information it considers, is an evolutionary process.	YES	Director of Finance	Ongoing during 2005/06	The Finance and Resources Committee has continued its review and scrutiny role throughout the year. Financial reports to the Committee and to the Board have emphasised the difference between the forecast outturn and the underlying, ongoing position.
4.6.11	<p>R2 A breakdown of the reinvestment target of £6.954 million for 2005/06 between operational savings and those expected from the four strategic and NHS Fife-wide initiatives should be provided to, and monitored by, the Finance & Resources Committee and thereafter reported to the Board.</p>	Comment as above.	YES	Director of Finance	Ongoing during 2005/06	Work has gone on throughout the year to distinguish in reports between savings schemes, whether local or nationally-driven under the Efficient Government Initiative, which release cash and those which make better use of the existing level of resources. The Board received a comprehensive report on the subject in March.



Appendix II - Updated Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
4.6.12	R3 The Finance and Resources Committee should take an active role in reviewing the work of the Challenge Group charged with the delivery of the Board's reinvestment target of £6.954 million for 2005/06	Comment as above.	YES	Chair of Finance and Resources Committee	Ongoing during 2005/06	The Committee has received update reports on the work of the Challenge Group.
5.1.4	Governance Arrangements R4 The Board should agree an action plan to ensure that the areas of internal control, governance and risk management that were highlighted for improvement in the 2004/05 SIC are taken forward to an agreed timetable. Periodic reporting of progress towards the action plan should be taken to the Board through the Audit and Clinical Governance Committees.	This is already recognised as a necessary step.	YES	Chief Executive	30 September 2005	The 2005/06 SIC demonstrates a significant number of improvements in the areas highlighted in the 2004/05 document. Action continues to be taken.



Appendix II - Updated Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
5.3.8	<p>Planning and Performance Management</p> <p>R5 The Board's performance management and reporting arrangements through the use of a balanced scorecard approach must be finalised, approved and implemented without further delay.</p>	This process is already under way.	YES	Chief Executive	30 November 2005	New arrangements fully implemented. Board approval given in November 2005 for 2005/06. Balanced Scorecard, with subsequent reports on performance to Board. Balanced Scorecard for 2006/07 approved by Board in May 2006
5.3.9	<p>R6 The Board should ensure that the use of the balanced scorecard approach is appropriately applied and recorded by its Remuneration Sub-Committee in carrying out its role of assessing the performance of the executive director group.</p>	As above.	YES	Chair of Sub-Committee	Post 31 March 2006	The report on the Balanced Scorecard performance 05/06, as presented to the Board, will be considered by the Remuneration Sub-Committee when it deals with 05/06 performance. The 06/07 Scorecard will similarly inform its consideration of 06/07 objectives.



Appendix II - Updated Action Plan

Para Ref.	Recommendation	Comments	Agreed	Responsible Officer	Agreed Completion Date	Progress at June 2006
5.4.5	<p>IM&T Strategy</p> <p>R7 The Board must ensure the early development, approval and successful implementation of its revised IM&T/eHealth Strategies taking account of national and local needs</p>		YES	Executive Lead for IM&T	30 November 2005	Revised eHealth Strategy approved by Board in November 05. eHealth Board overseeing implementation reporting to Clinical Governance Committee.
5.5.3	<p>Capital Planning</p> <p>R8 The Board, through its Finance & Resources and/or Audit Committees should continue to seek assurance that steps to address reported weaknesses in the capital management arrangements have been taken.</p>	Already in the work programme for the Audit Committee.	YES	Director of Finance <u>and</u> Director of Operations	31 December 2005	Finalised procedures are now in place.

