

NHS Greater Glasgow

Annual Report to Board Members

2005/06 Audit

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Our ref: CDR/MW/LM

Ladies and Gentlemen

Annual Report to Board Members 2005/06

We have completed our audit of Greater Glasgow Health Board (the “Board” or “NHSGG”) and its financial statements for the year ended 31 March 2006.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2005/06 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

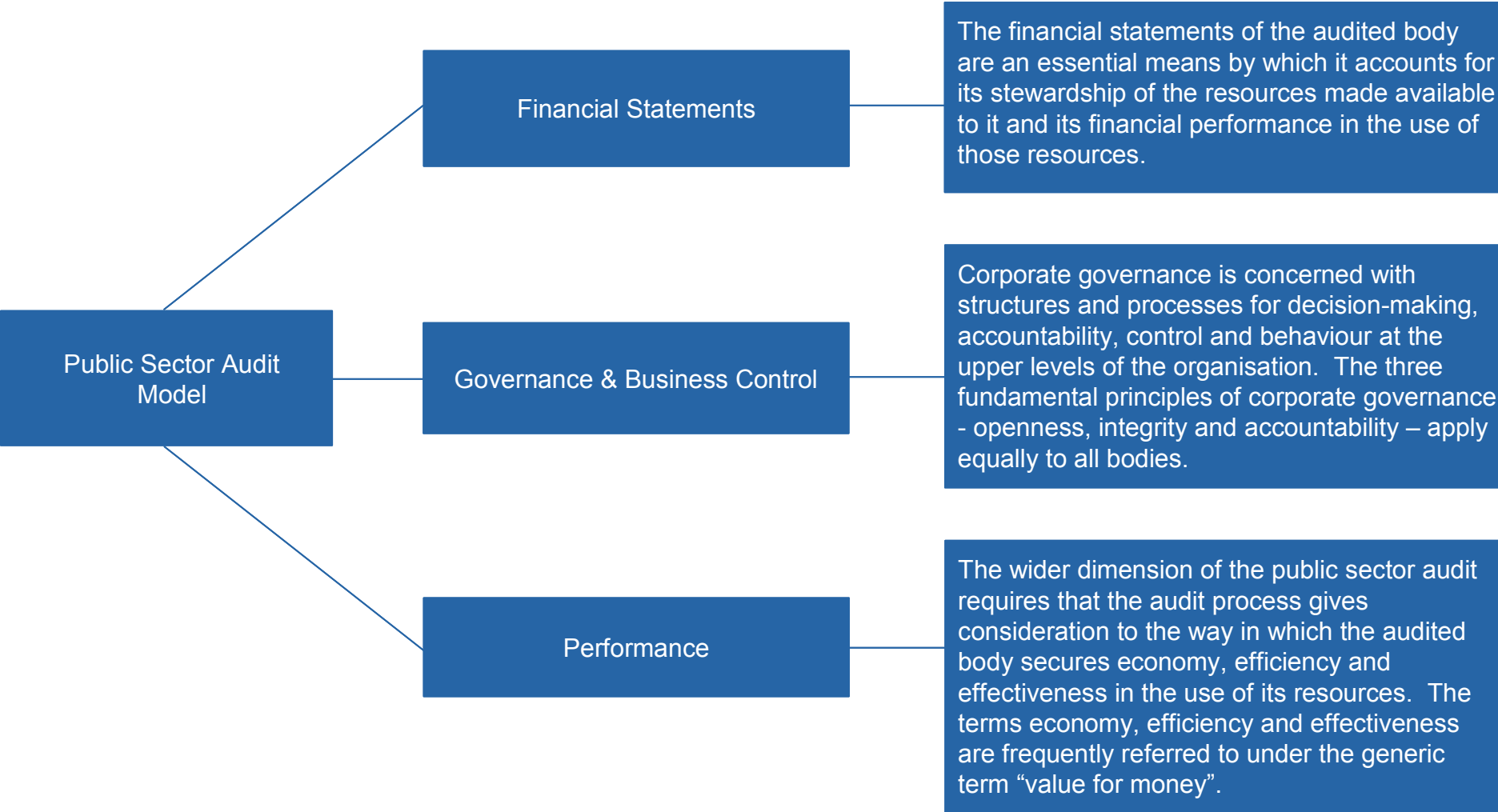
Our Report Structure

Our report structure reflects our wider public sector audit responsibilities as set out in Audit Scotland’s Code of Audit Practice.

The Model

Areas of Responsibility

Explanation



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1. Audit Opinions and Financial Targets

Our Audit Opinion

- 1.1 Our audit opinion concerns both the true and fair statement of NHS Greater Glasgow's ("NHSGG") financial results for the year ended 31 March 2006 (2005/06) and the regularity of its income and expenditure in the year.
- 1.2 Our true and fair opinion on the financial statements is unqualified.
- 1.3 Our regularity opinion on income and expenditure draws attention to patient exemptions with regard to pharmacy, dental and ophthalmic charges. The Counter Fraud Services (CFS) of the National Services Scotland (NSS) performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for NHSGG (now NHSGG&C) for 2005/06 suggests that exemptions amounting to £7.2 million may have been given that were not eligible. As a result of the work by the CFS and the potential control deficiencies which may exist, the Board has outlined this matter concerning patient exemptions in its Statement on Internal Control and Directors Report. We also draw attention to this matter in our audit opinion.
- 1.4 It should be highlighted that these non-eligible patient exemptions result from weaknesses in the control systems at the point of sale e.g. third party pharmacy counters. NHSGG has introduced a number of initiatives and measures to improve the controls around the patient exemptions process over the last few years.
- 1.5 Our opinion is set out in full in **Appendix 3**.

Financial Targets

- 1.6 The Board's performance against its three financial targets were as follows :

Financial Targets	Achievement
Net resource limit should not exceed the Revenue Resource Limit ("RRL")	The Board spent £1,358.0 million against its RRL of £1,370.3 million, resulting in a surplus of £12.3 million.
Capital Resource Limit ("CRL")	The Board stayed within its CRL – spending £69.337 million against its CRL of £69.460 million.
Cash Requirement Target	In material respects, the Board stayed within its target – it spent £1,323,403 million against a limit of £1,323,400 million.

2. Financial Performance and Commentary

- 2.1 For information the actual financial outturn for 2005/06, and the projected outturn for 2006/07, are summarised in the table below. The figures are presented in a format which identifies the amount of recurring and non-recurring income and expenditure and the underlying position for both years.

<u>The Board's Overall Financial Position</u>	2005/06		2006/07	
	£'m Actual	£'m Actual	£'m Actual	£'m Actual
Recurring Income		1,332		1,377
Recurring Expenditure		(1,348)		(1,387)
Underlying recurring deficit before recurring corporate savings		(16)		(10)
Add : Corporate Savings Target		10		10
Underlying Position		(6)		0
Non-recurring income	34		33	
Non-recurring expenditure	(20)		(40)	
Balance of non-recurring		14		(7)
Net position before other income sources		8		(7)
Other Income Sources		4		7
Surplus for 2005/06		<u>12</u>		<u>0</u>

Per above table	£'m	As per Annual Accounts	£'m
Recurring Expenditure	(1348)	Total Clinical Expenditure (net)	(1429)
Non Recurring Expenditure	(20)	Administration Costs (net)	(11)
Corporate Savings Target	<u>10</u>	Other (net)	<u>82</u>
Net Resource Out-turn	<u>1358</u>	Net Resource Out-turn	<u>1358</u>

- 2.2 It is emphasised that we do not express a specific audit opinion on the figures which follow on pages 7 to 12 – these have been extracted in agreement with management from various reports, supporting papers and other available documentation.

<u>Projected versus Actual Financial Position 2005/06</u>	£'m	£'m
Initial projected financial position for 2005/06 (Board approved in May 2005)		(10.4)
1. Main reductions in Projected Income (recurring) :		
i West of Scotland Health Board Income	(1.2)	
ii Asylum Seekers Services	<u>(1.5)</u>	(2.7)
2. Main changes to in – year financial pressures (recurring):		
i Energy Costs		<u>(3.5)</u>
		(16.6)
3. Additional Funding		
i Waiting Times	4.7	
ii Land Sales	<u>3.5</u>	8.2
4. Other Actions		
i Additional savings and release of provisions for expenditure commitments not yet underway		20.7
Actual financial position for 2005/06 (per Annual Accounts) - surplus		<u>12.3</u>

Financial Out-turn 2005/06 – Commentary

Annual Financial Plan

- 2.3 The Board approved its Annual Financial Plan for 2005/06 in May 2005. At this stage an overall deficit of £10.4 million was projected. In addition, up to £12.2 million of potential costs were identified relating to the implementation of the new GMS contract.
- 2.4 However, following approval of the plan by the Board ;
- The SEHD provided additional funding in relation to the new GMS contract implementation.
 - Following discussions with the SEHD, NHSGG agreed to revise its Plan to incorporate an additional cost improvement target of £10.4 million.
- 2.5 The result was that, at the mid year financial review, the Financial Plan for 2005/06 predicted a breakeven out-turn for the year.
- 2.6 The following paragraphs explain the principal reasons why the predicted breakeven position became a £12.3 surplus by the year end – it should be read in conjunction with the tables at paragraphs 2.1 and 2.2.

Actual Out-turn

- 2.7 In – year, the financial model used to calculate the values of West of Scotland cross boundary patient flow income was updated to incorporate 2004/05 patient activity levels. As a result, the net additional income attributable to NHSGG reduced from £6 million to £4.8 million – a reduction in income of £1.2 million.
- 2.8 In addition, additional funding budgeted for providing services to Asylum Seekers totalling £1.5 million was not secured.
- 2.9 Unplanned cost pressures emerging in-year consisted mostly of increased energy costs and increased spend on nursing, although these were managed in part by compensating cost containment measures and the release of funding provisions at the year end.
- 2.10 There were a number of funding provisions made within the 2004/05 and 2005/06 Local Health Plans related to expenditure commitments which did not get underway in-year. This included provisions for additional expenditure on a range of commitments, both national and local, where implementation dates are not yet agreed or delayed relative to original estimates and plans.
- 2.11 Mid-year, NHSGG Management reviewed all such expenditure commitments to identify provisions which could be released. This exercise indicated that £20.7 million could be “released” in 2005/06. This has contributed to the achievement of a surplus of £12.3 million and enabled the Board to meet the additional cost improvement target required by the SEHD.

Significant Cost Pressures 2005/06

2.12 NHSGG faced various cost pressures in 2005/06. A number of these are explained in the paragraphs which follow.

Agenda for Change

- 2.13 Agenda for Change (AFC) is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, aid recruitment and retention and allow for the personal development of staff. The new pay structure consists of nine pay bands and several pay points within each pay band. Individual posts are placed in the correct pay band by either matching the job to the national profile or a local job evaluation.
- 2.14 Additional resources were committed by the NHS Board under the direction of the AFC Steering Group and 4,779 posts have been matched covering 17,612 employees. This and the further additional commitment made by the NHS Board to provide full time job matchers should ensure that the revised target date of October 2006 for completion should be met.
- 2.15 A provision of £25.54 million has been included in the 2005/06 Annual Accounts to take account of the financial effect of implementing Agenda for Change.

Action Point 1

General Medical Services Contracts

- 2.16 The General Medical Services (GMS) contract came into effect from 1 April 2004 and represents a fundamental change in the way that General Practitioners are contracted with the NHS.
- 2.17 In financial year 2004/05, NHSGG faced a funding gap in relation to the cost of the GMS contracts due to GP practices in NHSGG achieving higher than funded Quality Outcome Framework (QOF) points than the level funded by the Scottish Executive Health Department. The £4.5 million funding shortfall (total expenditure of £13.9 million compared to funding of £9.4 million), was funded by NHSGG through efficiencies and savings.
- 2.18 A similar financial pressure was identified for 2005/06 and highlighted in the Annual Financial Plan at £12.2 million.
- 2.19 However, shortly after the start of the financial year, the SEHD announced a level of additional funding that enabled NHSGG to cover the full cost of GMS contract implementation in 2005/06. This was subsequently reported in the revised Annual Financial Plan to the Performance Review Group in September 2006.

Consultant Contract

- 2.20 The implementation and effective delivery of the requirements of the Consultant Contract Framework is a critical element of the Scottish Executive Health Department ("SEHD") improvement programme. The new contract provides increased levels of remuneration relating to time based contracts and agreed job plans. The job planning process is based around service needs and priorities; this involves agreement on hours worked linked to service and workforce planning.
- 2.21 All but one of the consultants employed by the NHSGG Board, and who have elected to transfer to the new contract, have now transferred to the new contract and the system is now embedded within working practices.

Waiting Times

- 2.22 Additional spend on waiting times in 2005/06 to achieve relevant targets (refer to paragraph 6.8) was reported as £11.164 million (2005 - £17.73 million), with £8.1 million funded recurrently (2005 - £6.57 million) and £3.064 million (2005 - £11.16) funded non-recurrently. NHSGG has used the National Waiting Times Centre and private providers to ensure the waiting times targets are achieved. The spend attributable to private providers was £1.4 million during 2005/06.
- 2.23 Further information on current and forthcoming waiting time targets and achievements is provided in paragraphs 6.8 to 6.11.

Medical/clinical negligence claims position

- 2.24 The medical/clinical negligence position is as follows:

	2005/06	2004/05
	<u>£'000</u>	<u>£'000</u>
Compensation payments made in year	8,680	3,548
Provision in accounts	14,425	8,918
Contingent liability in accounts (possible obligations where outturn is uncertain)	18,170	15,320

- 2.25 Our analysis of the position highlighted that the provision has increased from £8.9 million at year end 2005 to £14.4 million at year end 2006; this was attributable to £2.6 million of new claims arising in-year and increases in the amounts of, and risk factors, associated with existing claims.

<u>Projected Financial Position 2006/07</u>		£'m	£'m
Actual Reported Surplus – 2005/06			12.3
1.	<u>Less: Non Recurring Income</u>		
	i SEHD Funding	(11.0)	
	ii Land Sales	(7.5)	(18.5)
Opening Underlying Recurring Deficit 2006/07			(6.2)
2.	<u>Additional Funding – 2006/07</u>		
	i SEHD Uplift 2006/07	78.3	
	ii Other NHS Boards	2.4	
	iii Reduction in SEHD funding for unmet needs	(8.0)	72.7
3.	<u>Additional Expenditure – 2006/07</u>		
	i Prior year recurring commitments brought forward	(10.1)	
	ii Inflation and other pressures – 2006/07	(58.6)	
	iv New Service Commitments – 2006/07	(25.0)	
	v Planned non-recurring expenditure (including waiting times)	(15.4)	(109.1)
4.	<u>Savings Plans/Additional Income - 2006/07</u>		
	i Cost Savings Plans (recurring)	10.0	
	ii Land Sales (non-recurring)	7.5	
	iii Waiting List Funding	4.7	
	iv Other non-recurring funding	3.5	
	v Forecast Commitments carried forward to 2007/08	16.9	42.6
Forecast Position– 2006/07 - Breakeven			0

Projected Financial Position 2006/07

Predicted Pressures

- 2.26 In line with its five year financial plan, NHSGG aims to operate in a position of financial balance from financial year 2006/07 onwards. The plan stresses that from this time, revenue funding would be sufficient to cover all currently identified service commitments, with some scope remaining for new service commitments.
- 2.27 With the majority of costs associated with pay modernisation now identified and embedded into the budgetary process and provisions made for major commitments, key risks to this financial position for NHSGG are :-
- Growth in prescribing expenditure above forecast levels particularly in years beyond 2006/07;
 - Any further resource commitments that may arise to secure current and forthcoming waiting times targets;
 - Implementation of the Acute Services Programme, in particular entering into contracts for the establishment of two new ACADs, will demand that the values of the buildings which are currently used to provide services on the Stobhill and Victoria sites are adjusted to reflect a shorter remaining useful life. This can be expected to produce an increase in capital charge costs which will last for the duration of the residual lives of these buildings, due to the "impairment" of the buildings. We note that management has raised this issue with SEHD and are seeking to secure additional funding to meet impairment costs; and
 - Modernising Medical Careers is an initiative to change the way that doctors are trained. This has led to a streamlined education process. Currently, the first group of students are undergoing the new stage of the process, Foundation 1. This stage is similar to the existing process, and therefore has not resulted in any additional costs in 2005/06. The next stage of the process, Foundation 2, will be notably different than the existing process and may result in an adverse impact on doctors productivity rates, resulting in backfill costs. It is acknowledged that account of this matter is reflected in NHSGG financial projections.

Financial Management

- 2.28 The current predicted position of financial balance represents a notable achievement for NHSGG and all its staff. The Organisation has undergone a major period of change, with the move to single system and the implementation of major initiatives such as the Pay Modernisation programme and parts of the Acute Services Strategy. Detailed planning, control and monitoring are important elements of a successful financial operation and our work has identified clear indicators of such an environment within NHSGG.
- 2.29 However, financial pressures remain. In addition to those outlined above, the integration of Argyll and Clyde (and the key challenges outlined at **Section 9**) including a reported underlying deficit estimated at £28.4 million, the move to the new organisational structure and the introduction of the Efficient Government Agenda (refer to **Section 10**) represent continued challenges. Robust and high standards of financial management will require to be maintained to achieve the projected break-even position.

Action Point 2

3. The Audit Process and Accounting Issues

Changes from 2004/05

- 3.1 From April 2004, “Partnership for Care” removed organisational barriers in local health systems with the dissolution of NHS Trusts. The four Glasgow Trusts transferred their functions, staff and assets to new operating Divisions of the NHS Greater Glasgow Board.
- 3.2 This new structure removed the obligation for Divisions to produce statutory accounts. Instead, detailed Divisional accounts templates were produced at the year end, which did not require a specific audit opinion. Thereafter a consolidation exercise was undertaken at Headquarters level, including various consolidation adjustments.
- 3.3 Progress towards a fully functioning single system had been planned over a two year period ending in 2006. One of the key areas of change was the establishment of a Glasgow wide integrated Operational Financial Service (OFS), which started after the 2004/05 Annual Accounts process, employing approximately 100 staff and based on the Stobhill Hospital site.
- 3.4 Financial ledger integration was undertaken by the five Divisions and overseen by OFS. In relation to the implementation process for the new ledger system, certain teething issues were encountered which have now been resolved.
- 3.5 In addition to the single ledger migration, key challenges faced by OFS included:
 - integrating and retaining existing staff ;
 - identifying, recruiting and training new staff ; and
 - harmonising the working and management control environment.
- 3.6 Our Interim Audit in February / March 2006 identified a number of important issues with regard to systems of controls and processes within OFS. These issues were discussed with Management and reported in our Internal Control Report (March 2006). In response, the Financial Services Manager formulated an action plan to address these issues.
- 3.7 Assessment of this action plan at the final audit visit revealed improvements were tangible in relation to control account reconciliations, control of suspense accounts, credit control and payment practices. However, issues still requiring attention remain with regard to bank reconciliations (refer to paragraph 3.16).

Preparation of Financial Statements for 2005/06

- 3.8 The NHSGG Board financial statements were prepared in accordance with the accounting requirements contained in the NHS Board Manual for Accounts (“the Manual”) and supplementary guidance, as issued by the SEHD and approved by the Scottish Ministers.
- 3.9 Draft accounts were prepared and presented to us on the first day of the final audit visit. The overall quality of the accounts templates and working papers were of a good standard and represented a substantial amount of work by the OFS Management Team.
- 3.10 The Manual contains several changes to the prescribed format of the Directors’ Report. The major changes require Boards to now include within the Report an Operating and Financial Review, which contains a narrative explanation of the main trends and factors underlying the development, performance and position of the Board during the financial year and a summary of performance against the Key Performance Indicators, (agreed for 2005/06 as being those indicators included within the Performance Assessment Framework).
- 3.11 However, a complete Directors’ Report was not included within the draft accounts presented for audit and was not available until the end of the audit process.

Action Point 3

- 3.12 In addition, the move to single system working and the merging of the Divisional Ledgers has resulted in a complex ledger structure, with a vast number of cost centres and ledger codes, which was designed to facilitate geographical Divisional reporting.
- 3.13 This complex hierarchy, combined with the first year the current OFS Team has been involved in the annual accounts process, rendered the collation and grouping of amounts on an NHSGG wide basis for the Annual Accounts a difficult task and resulted in several final adjustments to the presentation and lines of disclosure in the Balance Sheet and Operating Cost Statement. Examples related to journal mispostings, the categorisation of balances and the treatment of trading accounts. These amounts were identified as part of the final audit and correcting entries were processed through the final Annual Accounts.
- 3.14 OFS Management continue to improve and refine the working practices and control environment at NHSGG. Whilst specific actions and greater familiarity with the financial ledger and the annual accounts process should ensure the issues noted above are not repeated in 2006/07, it is recommended that OFS management also take steps to refine the financial ledger hierarchy and simplify the coding range currently in place.

Action Point 4

Reconciliation of Bank Accounts

- 3.15 OFS inherited 29 bank accounts covering all the former Divisions and the Board. All these bank accounts were reconciled to the 31 March 2006 at the commencement of our final audit in May 2006. We noted that in reconciling these bank accounts a number of correcting adjustments were necessary and had been made by management.

- 3.16 It is likely that many of these adjustments were necessary as reconciliations did not take place on a regular basis throughout the year. This was reported previously in our interim reporting (see paragraph 4.12) and included, for example, four of the former North Glasgow Division reconciliations containing a large number of un-presented cheques over six months old totalling £313,000, some dating back to June 2004. The write off of these outstanding cheques has been included as part of our audit adjustments.

Action Point 5

Inter NHS Balances

- 3.17 SFR 30s show the balances at the year end owing and due from other NHS Boards. Indebtedness between NHSScotland bodies must be eliminated on SEHD consolidation so the net indebtedness reported in each set of NHS accounts must agree.

- 3.18 For financial year 2005/06, NHSGG was obliged to agree SFR30s with 24 other Health Bodies representing total balances of :

SFR 30 Debtors	£16.413 million
SFR 30 Creditors	£ 5.642 million

- 3.19 All balances have now been agreed, although several were agreed after the SEHD recommended deadline of April 30; this was not due to NHSGG delays.

Action Point 6

Audit Adjustments

- 3.20 Various audit adjustments, including those noted previously in this Section, were agreed with management and all were amended in the final Annual Accounts from the draft version prepared previously.

4. System of Internal Control

Statement on Internal Control

- 4.1 Our opinion is unqualified on the Board's disclosures contained in the Statement on Internal Controls. The Board has used the correct format for its Statement on Internal Control. The Statement has outlined the processes designed to identify and evaluate principal risks on a Glasgow-wide basis. In addition, key elements of the Board's control framework have been highlighted including internal and external audit, risk management, and clinical governance, including the work of the Risk Management Steering Committee. Further details on the governance framework are outlined in **Section 5**.
- 4.2 The Statement also outlines details of control deficiencies in relation to Family Health Service (FHS) patient exemptions. This matter has also been referred to in our audit opinion – refer to **Section 1**.
- 4.3 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Follow Up Report on previous control matters raised for action

- 4.4 Detailed reports were presented and discussed at the two Audit Committee Support Groups in January 2006 and a summary update was presented to the January 2006 Audit Committee.
- 4.5 Of the 75 agreed recommendations made in the reports issued in 2004/05 progress was reported as follows:

Status	Corporate	Partnership	Acute	Total	Total
	Number of Recommendations				%
Action Implemented	12	1	12	25	33
Action in Progress	21	3	14	38	51
Limited/Little Progress to Date	0	3	9	12	16
Total	33	7	35	75	100%

- 4.6 Overall, NHSGG had implemented fully 25 out of the 75 recommendations from previous reports. Action was in progress to address all but 12 of the recommendations. Notwithstanding the position at January 2006 we do recognise the commitment to improving the standards of internal control within NHSGG, particularly in a time when systems and control mechanisms are being re-aligned to the new structures.
- 4.7 The replacement of the temporary Divisional structure (which was based on the old Trust structures) resulted in changes to roles, responsibilities, personnel and processes. Indeed a number of our original recommendations, made to these previous Divisions, were no longer relevant. We therefore excluded such recommendations and endeavoured, where necessary, to establish updated responsibilities and timetables for actioning the remaining 50 (of 75) recommendations which have yet to be implemented fully.
- 4.8 Prioritised work is also now ongoing within NHSGG, to coordinate and address the “action in progress/ little progress to date” recommendations, and, as stated, revised action plans have been agreed with management.
- 4.9 Key areas requiring further action by NHSGG at the time of our review were as follows:

Financial Reporting: - the original recommendation advised management to review the financial information presented to the Board, and also consider whether a more standardised format for Divisional reports should be produced.

A review of the formats of reporting to the Board and Divisions is currently underway. A revised Board reporting format has now been agreed and is in process of being rolled out internally. In addition, lead managers in Acute and Partnerships are actively considering improvements to reporting to be implemented in 2006/07.

IT Disaster Recovery Plan – the original recommendation stated that the Board require to develop a Board wide IT disaster recovery plan as a matter of priority.

Development of a single Disaster Recovery and Business Continuity Plan for NHSGG has progressed since January 2006 but is not yet complete.

Authorised signatory lists - a consistent finding at the time of our review was the use of authorised signatory lists that were not up to date. By way of example, a limited sample test of purchase requisition forms within the Acute Division revealed that only 10% of the authorising signatories present on requisitions could be traced to an authorised signatory list.

We note that a process is underway to update Standing Financial Instructions (SFIs) and the Authorised Signatory List and these matters have been discussed at previous Audit Committees. The associated documents are being developed in tandem with the implementation of the new organisational structure and this will be completed by 30 June 2006. An interim Authorised Signatory List was approved by the April 2006 Board.

In parallel with the review of SFIs, a revised Fraud Policy and Action Plan is being prepared in respect of NHS Greater Glasgow and Clyde. This will reflect the partnership agreement with NHS Scotland Counter Fraud Services. This will be concluded by 30 June 2006 and submitted to the Audit Committee for approval.

Action Point 7

Financial Systems and our 2005/06 Internal Controls Report

- 4.10 An Internal Control Report was also presented at the two Audit Committee Support Groups in March 2006 and a summary update was presented to the March 2006 Audit Committee.
- 4.11 These reports were produced following our various audit visits during January/February/March 2006 and considered financial governance arrangements and internal control systems operating in 2005/06.
- 4.12 A number of important issues were identified with regard to systems of control and processes within the Operational Financial Service (OFS). In response, the Financial Services Manager formulated an action plan to address these issues.
- 4.13 The more significant areas where management action was agreed were the clearance of suspense accounts and the timely preparation and appropriate authorisation of key reconciliations – such as bank, creditors and debtors.
- 4.14 Assessment of this action plan at the final audit visit revealed improvements were tangible in relation to control account reconciliations, control of suspense accounts, credit control and payment practices. However, issues remain in relation to the bank reconciliations and have been outlined at paragraph 3.16.

Internal Audit's Report on the Board's Internal Controls

- 4.15 The extract from the outgoing Internal Auditor's opinion for 2005/06 is reproduced below:

“On the basis of the work undertaken for the year ended 31 March 2006 we consider that NHSGG generally has an adequate framework of control over the systems we examined (subject to implementation of the recommendations). In providing such an assessment we would draw to your attention our summary findings as presented in our individual reports issued throughout the year.....”.

Following a commercial tender process, from 2006/07, the Internal Audit Service for NHSGG&C will be provided by PricewaterhouseCoopers LLP.

Termination Packages

- 4.16 The Board had no reported settlements for Board level officers during the year. However, as a result of the re-organisation resulting from the move to single system, termination packages were paid to a number of employees.

5. Governance

- 5.1 Through good governance, NHS boards are able to improve services for patients and the working lives of staff that care for them. Governance means setting the strategic direction within the parameters laid down by the Scottish Executive Health Department's policies, providing leadership, setting the tone for the whole organisation, overseeing the control of the Board's work and reporting activities and progress to stakeholders. NHS Board members are, therefore, collectively responsible for the success of their organisation.
- 5.2 Governance within the NHS can be considered under 4 main headings:

Financial and Performance Governance	The proper management of resources and a sound financial standing will enable the organisation to achieve its aims and objectives to meet its obligations as and when they fall due.
Clinical Governance	The Board should have an established clinical governance framework which supports and monitors standards for care, creates an environment for the continuous improvement of services, supports strategic planning and facilitates service delivery.
Risk Management	Responsibility is placed on the Board and primarily the Accountable Officer in the Statement of Internal Control to maintain a sound system of internal control and comply with all applicable laws and regulations.
Staff Governance	NHS employers are expected to have systems in place to identify areas that require improvement and to develop action plans that describe how improvements will be made. The underlying principle is that NHS Boards should recognise that investing in staff will allow them to deliver services to the best of their ability in modern healthcare settings.

Background

- 5.3 The move to a Single System Organisation in accordance with the "*Partnership for Care: Scotland's Health White Paper*" has involved the dissolution of individual Divisions, the creation of one Greater Glasgow wide Board and the formation of Community Health Partnerships.
- 5.4 This reorganisation was not only about major structural change - shifting from four NHS Divisions and sixteen LHCCs into a single acute division and partnership arrangements for mental health, primary care and community services - but also about transforming ways of working, including the integration of health and social care services, breaking down barriers between primary and secondary care, delivering services across Greater Glasgow and putting health improvement at the centre of the NHS.

Governance Approach

- 5.5 Given the scale and complexity of the governance and management arrangements that existed pre 1 April 2004, it was recognised that attaining a single system solution would be difficult to achieve. As a result, the Board decided to adopt a two year staged approach to single system working that included the operation of transitional governance arrangements prior to full implementation.
- 5.6 During 2005/06 further work has been undertaken by the NHSGG Board to develop proposals and action plans to implement single system working across the unified structure. The key element of this work was the establishment of Single System Committees of the NHS Board from 1st January 2006.
- 5.7 The December 2005 Board approved the remits and memberships of the Audit Committee, Clinical Governance Committee, Staff Governance Committee, Performance Review Group, Research Ethics Governance Committee and Remuneration Sub Committee. Appropriate arrangements were followed in dissolving the Divisional Management Teams and their supporting Committees.
- 5.8 As a result of the move to single system working, the Audit Committee considered the size and complexity of NHSGG's business and its role in the governance structure.
- 5.9 Following consultation with PricewaterhouseCoopers by means of a facilitated workshop for Audit Committee members, it was decided to establish two Audit Support Groups (covering the Acute Division and the Partnerships/Corporate function). It was agreed the Audit Committee would receive and consider reports which covered strategic issues and recognised areas of greater risk. Operational issues and risks would be reported to the relevant Audit Support Group with the Groups providing assurance to the Audit Committee that they had addressed and actioned all necessary matters raised. These groups would also ensure any issues which had, or were liable, to increase in importance were brought to the attention of the Audit Committee in regular reports.
- 5.10 This new structure commenced in January 2006, with subsequent meetings held in March and May 2006, in tandem with the Audit Committee cycle. In addition, the minutes from the Support Groups are now standing items on the Audit Committee agenda.

Financial and Performance Governance

- 5.11 High standards of financial stewardship are achieved through effective financial planning and strategy, financial control, and through maximising value for money.
- 5.12 Monitoring of performance is conducted by the Performance Review Group (PRG). The PRG was established and granted delegated responsibility with powers on behalf of the NHS Board to monitor organisational and financial performance and resource allocation and utilisation. Much of the emphasis of the PRG in the last two years has been on the financial position within NHSGG and the development of the Financial Recovery Plan.
- 5.13 The Group also ensures that there is a co-ordinated overview of performance across all domains of the Performance Assessment Framework (now HEAT). The Group meets bi-monthly (more frequently if required) and the minutes of its meetings are reported to the NHS Board together with recommendations as appropriate.

- 5.14 A good financial and performance governance framework should also enable Board members to make formal decisions of very considerable financial impact at Board meetings with knowledge and confidence. To assist the Board in taking such decisions, Board management have organised dedicated seminars on matters of strategic importance, where members can raise questions, seek further information and challenge management. In total, nine seminars were held in the financial year, with more planned for 2006.
- 5.15 In terms of financial reporting and monitoring, a number of issues were raised in 2004/05 audit reports regarding the quality and consistency of reports. The Director of Finance introduced a number of improvements during 2005/06 and a number of further initiatives are scheduled for 2006/07 supported by training for key staff.
- 5.16 To aid these further developments, in addition, management has established a Finance Transitional Overview Group, chaired by the Director of Finance, and supported by three sub-groups representing Corporate (the Board), Partnerships and Acute. The objective of these sub-groups is to convert the current geography based financial reporting and monitoring structure to a new functional divisional basis, to match the revised NHSGG structure at the 1 April 2006.
- 5.17 Further details of the Performance Framework are outlined at **Section 6**.

Action Point 2

Clinical Governance

- 5.18 The remit of the Clinical Governance Committee has been reviewed and redrafted to reflect single system working, the integration of Clyde and the formation of a Clinical Governance Implementation Group (CGIG). The newly formed Committee held its first meeting during March 2006 and the CGIG held its first meeting in February 2006.
- 5.19 The revised remit confirmed the Committee's role as overseeing and assurance rather than delivering clinical governance. The role of the CGIG was to be responsible, on behalf of corporate management, for developing policy and establishing decisions on strategic priorities deemed essential to clinical governance and the attainment of its goals.
- 5.20 Work is ongoing at present to draft a new Clinical Governance Strategy taking account of the reorganisation of the Board.

Action Point 8

Risk Management

- 5.21 Progress continues to be made with the implementation of the Risk Management Strategy. Consideration has been given to the implications for the strategy as a result of the restructuring within Glasgow and transfer of services from the former NHS Argyll and Clyde Board. This has required a further redrafting of the strategy to reflect NHS Greater Glasgow and Clyde requirements.
- 5.22 In relation to risk identification and assessment, steps have been taken to develop a consistent protocol that will apply across the single system.

- 5.23 The main outstanding area continues to be the need to update and refresh the corporate risk register. Whilst recognising that structural change has impacted on the development of the corporate risk register we would recommend that this is addressed at the earliest opportunity.

Action Point 9

Staff Governance

- 5.24 The 2005/06 Staff Governance action plan was approved by the Staff Governance Committee in May 2005 and supported by a high level project plan. As part of this project plan, a short term steering group was established to assist in the evidence gathering and data collation required for implementation.
- 5.25 A report was prepared and presented to the 6 March 2006 Staff Governance Committee detailing the progress against the action plan, and outlined actions and priorities for the year ahead. These updated actions and priorities were approved by the Committee and subsequently the Area Partnership Forum, prior to forwarding to Audit Scotland.

Community Health Partnerships

- 5.26 NHSGG's aim has been to establish fully integrated Partnerships which will bring together NHS and Local Authority responsibilities but retain clear individual agency accountability for statutory functions, resources and employment issues. In order to achieve this objective, a model was established containing:
- Five Community Health and Care Partnerships (CHCPs) with Glasgow City Council;
 - A Community Health and Care Partnership with East Renfrewshire Council;
 - Community Health Partnerships (CHPs) with West and East Dunbartonshire Councils; and
 - One Community Health Partnership developed jointly with NHS Lanarkshire covering the South Lanarkshire area.
- 5.27 The CHP model involves the provision of NHS services only. The CHCP models combine these NHS services with social work services provided by local authorities.
- 5.28 The December 2005 NHSGG Board approved Schemes of Establishment and Standing Orders for the Proceedings and Business and the membership of Committees of the five Glasgow CHCPs and the West Dunbartonshire and East Dunbartonshire CHPs. Similar approvals were subsequently obtained for East Renfrewshire.
- 5.29 Work to develop Schemes of Delegation remains on-going and will be further developed as consideration is given to preparing a Governance Memorandum between Glasgow City Council and NHSGG.

Action Point 10

- 5.30 Each CHCP/CHP now has its own Director and Management Team. Work is on-going to set up local arrangements for Clinical Governance in each of the CHCPs and CHPs.

- 5.31 Heads of Finance have been appointed and joint budgets are currently being agreed with Local Authority counterparts for 2006/07.
- 5.32 Each CHCP/CHP will align with the overarching Clinical Governance, Finance and Risk Management framework operating for NHS GG&C. Each CHCP/CHP is also drafting its own Development Plan.

Audit Committee Membership

- 5.33 The NHS Scotland Audit Committee Handbook sets out the key requirements of an Audit Committee. The Handbook highlights that an Audit Committee should be composed of, as a minimum three Non-Executive Directors, with a quorum of two and in particular the duties and experience of Audit Committee non-executive members:

“At least one non-executive director of the Committee should have significant, recent and relevant financial experience, for example as an auditor or finance director. All members of the committee, whatever their background should have an understanding of Board objectives and significant issues, Board structure and culture, relevant legislation and rules, major initiatives and accountability. The Committee as a whole should have knowledge/skills/experience in accounting, risk management and audit.”

- 5.34 We are pleased to report that at present the Audit Committee does contain individuals with financial experience.

6. Performance Management

Local Delivery Plan (LDP)

- 6.1 At the February 2006 Board meeting, the then Director of Planning and Community Care and the Director of Finance led the Board through the format of the Local Delivery Plan (LDP) which had twenty-eight targets, informed by thirty-two key measures distributed across four objectives (HEAT), namely:
- Health improvement;
 - Efficiency and effectiveness;
 - Access; and
 - Treatment.
- 6.2 The LDP also included sections on waiting targets for inpatients, day cases and outpatients. The Plan was presented to the Board at their February 2006 meeting, and was approved and submitted to the SEHD.
- 6.3 During March 2006 the SEHD communicated back to NHSGG a number of issues arising from the submitted LDP. The Executive's comments focused primarily on target achievement and the rigour of the risk assessment. As a consequence a series of amendments were made to the original LDP and these were presented to the April 2006 Board Meeting.
- 6.4 NHSGG is in the process of agreeing a Performance Management Framework for each of its operating units (Acute Division, Community Health Partnerships and the Mental Health Partnership). These frameworks will cover various areas of performance incorporating the HEAT targets and also local targets aligned with corporate priorities.
- 6.5 Progress on the LDP, together with the outcome of monitoring by the Executive's Local Delivery Unit, will be reported regularly to the NHS Board or Performance Review Group (PRG). The first scrutiny of the LDP is due in Summer 2006 and will feature in the next Annual Review.
- 6.6 The Local Delivery Plan is supported by a financial plan.

Action Point 11

Waiting Times

- 6.7 NHSGG identified national waiting times targets as one of its key performance indicators. Waiting times monitoring systems are in place with regular performance information in this regard being submitted to the Board.
- 6.8 SEHD set a target of a 26 week maximum wait for both outpatients and inpatients/day case treatments - to be achieved by December 2005. The Board was successful in meeting the target for inpatients by December 2005, however one outpatient did wait longer than 26 weeks. This single example was identified and quickly resolved in January 2006.
- 6.9 The Board has subsequently turned its attention to meeting the current targets set by the SEHD. These are an 18 week maximum wait from a decision to undertake treatment to the start of the treatment - by December 2006 (advanced from December 2007), and an 18 week maximum wait for an outpatient appointment to be achieved by December 2007. Shorter maximum waiting time targets have also been set for specific treatments, such as cardiac intervention. NHSGG has agreed planning milestones with the National Waiting Times Unit (NWTU) for a sustained reduction in over 18 week waits for inpatients/day cases from the current level to zero by December 2006. In addition, NHSGG will include the "Clyde" element in monitoring and reporting for the future due to the dissolution of Argyll and Clyde NHS Board.
- 6.10 NHSGG has also taken account of the range and scope of the new targets, and has begun to develop new ways of monitoring and reporting to the Board.
- 6.11 Spend on waiting times in 2005/06 to achieve these targets is outlined at paragraph 2.22; reported by NHSGG as £11.164 million (2005 - £17.73 million), with £8.1 million funded recurrently (2005 - £6.57 million) and £3.064 million (2005 - £11.16) funded non-recurrently. NHSGG has used the National Waiting Times Centre and private provision to ensure the waiting times targets are achieved, with the spend attributable to private provision costing £1.4 million during 2005/06.

Action Point 12

Pay Modernisation – Benefits Realisation

- 6.12 NHSGG has taken steps to comply with the requirements of HDL (2005) 28 – Delivering the Benefits of Pay Modernisation in NHSScotland. This involves a Pay Modernisation Delivery Plan and the establishment of a Pay Modernisation Board. The plan sets out how attainment of pay modernisation benefits against specific measurable and timebound indicators will be measured.
- 6.13 The draft plan was submitted to the SEHD by the prescribed deadline of August 2005 and a six monthly update was compiled as at 31 March 2006 and submitted to the Executive. This was presented to the NHSGG Pay Modernisation Board for approval on 20th April 2006. Ministers will use plans to performance manage and guide progress on benefits realisation.

7. Prevention and Detection of Fraud and Irregularities

Fraud and Corruption Reviews

- 7.1 As part of our rotational plan to review the key systems and methods for the prevention and detection of fraud and corruption we have conducted a review of the Board's overall arrangements and policies. No major issues of concern were identified although it is worth noting that the redrafting of Standing Financial Instructions and the Authorised Signatory List remain in progress and are due for completion at the end of June 2006. We would recommend an immediate roll-out following Board approval.

Action Point 7

Fraud and Irregularities Guidance

- 7.2 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2005/06 and have undertaken work accordingly. There were no matters for reporting here from this work.

Fraud Submission

- 7.3 A return is due to be made to Audit Scotland of all the reported frauds in the year. NHSGG Managers are currently extracting this information from the Fraud Register and anticipates completion and submission by 30 June 2006.

8. Acute Services Programme

- 8.1 The Acute Services Programme (ASP) is scheduled to run until 2012 and involves a significant and fundamental redesign, reconfiguration and modernisation of clinical services and facilities within Glasgow. The implementation of the Strategy involves a four stage process and will likely concern developments at the Beatson, Stobhill, Victoria, Southern General Hospital, Glasgow Royal Infirmary, Gartnavel Hospital and Children's Services.
- 8.2 Over the last few years we have conducted various reviews over elements of the programme. During 2005/06 our reviews were restricted to assessments relating to the developments at Stobhill and Victoria, and the Accident and Emergency Services Reconfiguration.
- 8.3 Our most recent review of the Stobhill and Victoria developments took place in the period May to July 2005. The report produced following this review commented on project management arrangements; affordability; fitness for purpose; and value for money.
- 8.4 A report and presentation was made to the Performance Review Group in September 2005, with an update to the October 2005 Audit Committee.
- 8.5 Our report noted that NHSGG had:
- operated a formal control framework for advancing the developments.
 - produced projections and assurances to demonstrate the affordability of the project.
 - applied appropriate processes to obtain assurance over the fitness for purpose of the developments.
 - designed processes to provide comfort to enable board members to form an informed view on the VFM aspects of the project.
- 8.6 It should be emphasised that our review did not seek to represent a conclusive position relating to the affordability or VFM aspects of this project or the detail of the Public Sector Comparator risk adjustment. Rather it focussed on the key processes and methods applied by NHSGG and its advisers.

Accident and Emergency Services Reconfiguration

- 8.7 A key element of the Acute Services Programme is the reconfiguration of Accident and Emergency (A&E) services. The Board of NHS Greater Glasgow agreed the pattern of future provision of A&E Services at its meeting on 27 June 2002. It was also approved in 2002 by the Minister for Health and Community Care, with the proviso that "...it is right that the assumptions that underpinned that decision should be looked at again, when we are a bit nearer any changes to accident and emergency services..".

- 8.8 In response to the Minister's request, NHS Greater Glasgow undertook a number of exercises in 2004/05 to assess the current applicability of the assumptions which underpinned the June 2002 decisions on A&E Services.
- 8.9 In late 2005 a review was conducted by PwC to ensure the Minister's request was undertaken.
- 8.10 A briefing paper covering our scope, key findings and conclusions was presented to the March 2006 Audit Committee.
- 8.11 We stated that, based on the work we completed, it was reasonable to conclude that NHSGG had taken reasonable steps to ensure that the assumptions underpinning the June 2002 decisions remained valid.
- 8.12 We also highlighted that the success of the planned changes to A&E service provision would be heavily dependent on clear and regular communication to the public and other partners, emphasising in our report the importance of NHSGG putting in place a robust communications plan to support the roll out of the revised arrangements. This was agreed with management.

Stage of Acute Services Programme developments

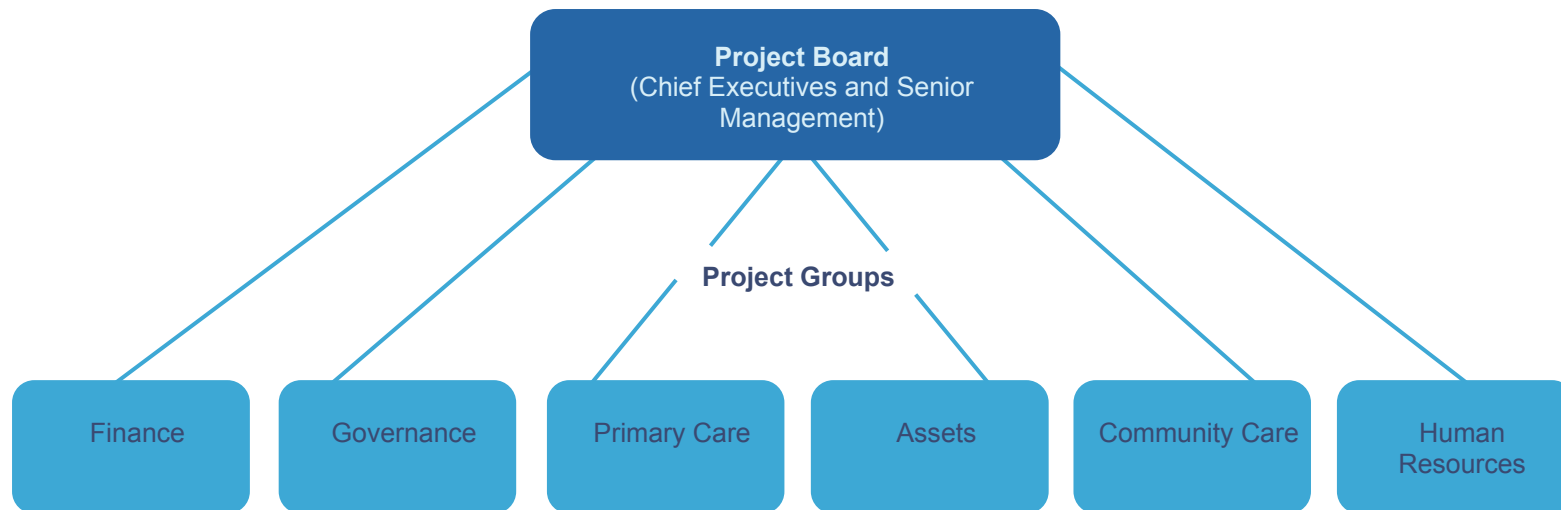
- 8.13 Enabling works have commenced at both Stobhill and the Victoria and the successful private sector Consortium has submitted detailed planning applications.
- 8.14 Timescales for these developments are as follows:
- start on site targeted for September 2006;
 - completion of the facility by the end of 2008; and
 - following a commissioning period, the hospitals opening in early 2009.
- 8.15 Phase Two (the provision of a South Glasgow Hospital on the Southern General site) is now underway, with work ongoing to address a number of important factors, including bed modelling, transport factors, community engagement and acute admissions. A new Project Executive has been established, reporting to the ASP Programme Board, supported by a number of sub-groups.
- 8.16 The Minister for Health set up the Calder Group to review and approve the Board's options appraisal process for the siting of a new Children's hospital. It reported in March 2006 supporting the NHSGG Board's decision that the facility would be located on the Southern General Hospital site.
- 8.17 In this regard, specialised adult, maternity and children's facilities will be located together on the same site. An Outline Business Case is targeted for completion by December 2006.

Action Point 13

9. Integration of NHS Argyll and Clyde

- 9.1 In May 2005, the Minister for Health announced the intention to dissolve NHS Argyll and Clyde with significant parts being integrated into NHSGG from 1 April 2006. Greater Glasgow will take responsibility for the whole of the West Dunbartonshire and East Renfrewshire Council areas and for the Renfrewshire and Inverclyde Council areas. Remaining areas will be transferred to NHS Highland.
- 9.2 The implementation of the process was overseen by the Argyll and Clyde Project Board, and a Director was appointed on a part-time basis to oversee the integration process. A series of Project Groups were also established to analyse and report on key areas of the project.

Argyll and Clyde Project Board and Group Structure



- 9.3 Each project group had an implementation plan, and the Project Director was responsible for co-ordinating all the plans.
- 9.4 A wide range of reviews, meetings and discussions have taken place between relevant stakeholders. Notable points from the process related to:
- A joint financial planning subgroup was formed where a number of significant financial issues, including the current underlying financial deficit and risks associated with elements of the present Argyll and Clyde savings plan were discussed. As a result NHSGG has made a number of proposals to the SEHD regarding the proportion of NHS Argyll and Clyde's core funding allocation to be made available to NHS Glasgow and Clyde and the necessary financial support required to successfully integrate and ultimately deliver improved services in the Argyll and Clyde area.
 - A number of human resource issues and risks such as NHS Argyll and Clyde staff who could not be matched into NHSGG or NHS Highland roles and gaps in expertise and local knowledge due to a number of senior staff departures at NHS Argyll and Clyde.
 - A series of meetings have taken place with senior NHSGG Officers and Renfrewshire and Inverclyde Councils to establish relevant CHP's. A Scheme of Establishment for the Renfrewshire CHP was approved (in draft) by the Council on the 16th March 2006 and by NHSGG&C Board on the 18th April 2006.
- 9.5 The integration project is underpinned by a Risk Register, with sub registers for each key area. The Project Board identified and took steps to manage the key risks and challenges for the process; key areas will include:
- Developing a savings plan to tackle the underlying financial deficit reported at an estimated £28.4 million of the former NHS Argyll and Clyde Health Board; and
 - Merging key operating systems, including finance and human resources, ensuring consistency of working practices with minimum disruption to services and staffing issues.
- 9.6 The integration of Argyll and Clyde represents a major challenge. Robust governance, planning and monitoring procedures will be required to ensure the success of the integration, and to ensure improved and consistent services are delivered throughout the new area and within specified financial parameters.

Action Point 14

10. Efficient Government

- 10.1 The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector'. A key feature of the initiative is that it focuses on the public sector as a whole, rather than individual organisations, with the intention of realising efficiencies through joining up – in purchasing, in accommodation, and in support services. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money.
- 10.2 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.
- 10.3 As the Board's Corporate Recovery Plan in 2004/05 already contained recurring savings in excess of £20 million, the Board sought to agree a target with SEHD for the three year period to 2007/08 which took account of this previously achieved level of savings. The Board has put in place a total savings target of £37 million over the three year period to 2007/08 incorporating a number of these previously achieved savings.
- 10.4 NHSGG management continue to have discussions with the SEHD regarding NHSGG's submitted savings plan and we continue to liaise with Management over the development of the savings plan.

Audit Scotland – Efficient Government Diagnostic

- 10.5 In addition, Audit Scotland required all auditors to complete, together with their audited bodies, an "Efficient Government Diagnostic" – a self assessment tool covering the key themes of the Efficient Government agenda. The diagnostic outlines the themes as: -
 - Asset Management;
 - Managing Absence;
 - Procurement;
 - Shared Support Services; and
 - Streamlining Bureaucracy.

- 10.6 The Diagnostic was circulated amongst senior management for completion and we met with a number of them to understand the information presented. The completed return has been submitted to Audit Scotland and the key findings can be summarised as follows:-
- NHSGG has in place systems to monitor, measure and report efficiency savings, as part of the overall financial saving and monitoring structure. These systems include a project approval and monitoring process for savings and efficiency plans. In addition, NHSGG&C is currently developing a contract module of the CEDAR information system to become the reporting mechanism for "Efficient Government" savings.
 - Cash releasing savings of £41.1 million have been identified for the three years to 2007/08.
 - In terms of asset management, NHSGG has long established links with Glasgow City Council Social Work, the Universities, Community Groups and GP Practices for sharing accommodation.
 - NHSGG has a centralised procurement function and continues to investigate new methods of collaborative buying arrangements and further initiatives under the efficient government banner.
- 10.7 Audit Scotland intend to collate and compare the "Efficient Government Diagnostics" for all Health Boards across the country and produce an anonymised report drawing out the key themes and findings.

Action Point 15

11. Best Value

Background

- 11.1 Since April 2002 there has been a duty of Best Value on Accountable Officers to “ensure arrangements are in place to secure Best Value”. High level guidance was issued in May 2003, followed by more detailed guidance in August 2003. This guidance applied to the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). The duty was described in the guidance as:
- The duty of Best Value, being to make arrangements to secure continuous improvements in performance; and
 - To have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

Purpose

- 11.2 Audit Scotland, in its role to support the development of Best Value across the wider public sector, asked individual auditors to perform high level reviews to determine the extent to which audited bodies have developed arrangements to support their accountable officers’ duty of best value. The purpose is not to attempt to assess whether audited bodies have achieved best value but to establish baseline information across the wider public sector on the management arrangements in place for taking forward the Best Value agenda and demonstrating continuous improvement to secure Best Value.
- 11.3 As external auditors of NHSGG, we undertook such a review in April and May 2006. Our analysis provided an overview of the management arrangements in place within NHSGG in support of the Best Value agenda.

Action Point 16

11.4 Areas reported in relation to NHSGG included:

- The Organisation has built on the key principle of continuous improvement through the move to Single System Working, the Acute Services Strategy and involvement in the Regional Planning Framework and Managed Clinical Networks ;
- The Local Delivery Plan was presented at the February 2006 Board meeting which had twenty-eight targets, informed by thirty-two key measures distributed across the four HEAT objectives. Following consultation with the SEHD, an amended version of the plan was submitted to the April 2006 Board Meeting, supported by the five-year financial plan ;
- The Head of Performance Management has been working to ensuring that the messages emerging from the information sent to the Executive in relation to the HEAT targets are embedded within NHSGG&C to drive improvements ;
- Progress on the Local Delivery Plan, together with the outcome of monitoring by the Executive's Local Delivery Unit, will be reported regularly to the NHS Board or Performance Review Group (PRG). The first scrutiny of the LDP is due in the summer 2006;
- In terms of the balance between cost and quality, it is worth noting that the Board has in the past two years achieved financial balance without any reported major negative effects on services ;
- A customer focused approach is developed through the level of interaction and consultation with stakeholders through a variety of mediums such as "Health News", "Staff News", the Community Engagement Team, the Involving People Database and the Involving People Committee; and
- NHSGG's first Race Equality Schemes and associated action plans were published in November 2002 and March 2003 respectively. A new report based on progress on the 2002-2005 Race Equality Schemes was presented to the April 2006 Board and a Race Equality Scheme for 2005-2008 was also presented. The Scheme is designed to cover how NHSGG will meet the general and specific duties contained within the Race Relations Amendment Act 2000.

Reporting and Timescales

- 11.5 Audit Scotland's Best Value working group will develop anonymised sectoral reports and an overarching report highlighting key themes and instances of good practice.

12. Other Business Issues

PFI/PPP Schemes

12.1 NHSGG operated four PFI/PPP schemes during 2005/06 as follows:

- An elderly bed facility consisting of 72 beds at Mearnskirk House.
- A care of the elderly facility, with Town Hospitals, contained within the Southern General Hospital site, providing 210 beds for housing patients in elderly assessment, medicine for the elderly and younger physically disabled.
- Provision of Hospital Information System (HIS) system, the patient management record system and support for the system, for the Southern General and Victoria Infirmary.
- Provision of a HIS system for Yorkhill Hospital.

12.2 Two additional PFI/PPP schemes have been approved by the Board and are either under construction, or due to commence construction in 2006/07 as follows:

- Stobhill Forensic Unit. This consists of a 74 bed self standing inpatient unit for patients with forensic psychiatric conditions.
- Gartnavel Royal Hospital. A self standing mental health hospital containing 117 beds.

12.3 Further information regarding PFI/PPP schemes is disclosed in **Appendix 4**.

Tariffs

12.4 National tariffs are to be phased into NHS Scotland in relation to cross boundary flows. These tariffs are intended to replace the current format of recharging for cross boundary flows, that is Service Level Agreements (“SLAs”). These agreements are negotiated, agreed and signed documents that govern the key elements including charges of flows between Boards.

12.5 It was intended that these tariffs would be introduced during 2005/06. However it was decided by SEHD in March 2006 that no adjustments were to be made to SLAs in 2005/06. Tariffs are to be introduced for a basket of elective and non-elective activities. The purpose behind the tariffs is to create an incentive to increase efficiency by encouraging benchmarking between hospitals and Boards to identify tariff rates.

- 12.6 NHSGG financial management have undertaken work to analyse the impact on the Organisation of the proposed national tariffs. This has included benchmarking various procedures against other Boards and undertaking comparisons using the information received from the National Tariff Group.
- 12.7 Whilst we have not undertaken a review of this work, NHSGG's initial view is that rates reflected in current SLAs are close to the proposed tariff rates, potentially limiting any major financial impact to NHSGG in the event of tariff introduction.

Appendix 1: Action Plan

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
1	<p>NHSGG needs to complete the assimilation process for the Agenda for Change framework to ensure the specified deadlines are met.</p> <p>In addition, this should identify any additional costs associated with the initiative and ensure funds are secured from alternative sources to offset any impact on the financial plan.</p>	Director of Human Resources	31 October 2006
2	<p>The merging of Argyll and Clyde, the revised organisational structure and the introduction of the Efficient Government Agenda represent a major challenge to the projected position of financial balance.</p> <p>Continued standards of financial planning, control and monitoring will be required to achieve the projected position, or to identify alternative income/savings to manage other in-year pressures. It is imperative revised reporting reflecting the current structure is adopted as soon as possible.</p>	Director of Finance	At key milestones throughout 2006/07
3	NHSGG management should ensure the Directors' Report is completed on time and in accordance with the prescribed format for the start of the 2006/07 audit process.	Financial Services Manager	31 May 2007
4	<p>OFS Management should continue to improve and refine the working practices and control environment at NHSGG. Whilst specific actions and greater familiarity with the financial ledger and the annual accounts process should ensure the issues raised in our Report are not repeated in 2006/07, it is recommended that OFS management also take steps to refine the financial ledger hierarchy and simplify the coding range currently in place.</p> <p>Part of the process of refining the financial ledger hierarchy should include amending the coding structure concerning trading accounts to avoid double counting of income and expenditure in the Annual Accounts and posting of journals relating to opening ledger balances.</p>	Financial Services Manager	31 December 2006

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
5	<p>It is recommended that the bank account arrangement inherited by OFS is reviewed, with the number of accounts being rationalised.</p> <p>This would enable a more straightforward reconciliation process throughout the year and reduce the number of journal transfers between accounts in order for them to reconcile.</p>	Financial Services Manager	30 September 2006
6	<p>Indebtedness between NHSScotland bodies must be eliminated on SEHD consolidation so the net indebtedness reported in each set of NHS accounts must agree.</p> <p>NHSGG should endeavour to agree all SFR30s by the prescribed deadlines for the 2006/07 Annual Accounts process.</p>	Financial Services Manager	30 April 2007
7	<p>NHSGG needs to address those matters recommended for action in our previous audit reports, in particular;</p> <ul style="list-style-type: none"> • reviewing and updating the financial information presented to the Board; • to develop a Board wide IT disaster recovery plan as a matter of priority; and • the updating of the authorised signatory listing. 	<p>Director of Finance</p> <p>IM&T Corporate Lead</p> <p>Financial Services Manager</p>	<p>At key milestones throughout 2006/07</p> <p>31 December 2006</p> <p>30 September 2006</p>
8	<p>NHSGG managed should finalise, approve and implement the revised Clinical Governance Strategy.</p> <p>The Strategy should take account of the new Board structure, new partnership arrangements and best practise from NHS QiS. There should also be clear links, where relevant, to other strategic documents such as the LDP and the ASS.</p>	Medical Director	30 September 2006
9	<p>Steps have been taken to develop a consistent protocol, that will apply across the single system, in relation to risk identification and assessment.</p> <p>However, the main outstanding area continues to be the need to update and refresh the corporate risk register. Whilst recognising that structural change has impacted on the development of the corporate risk register we would recommend that this is addressed at the earliest opportunity.</p>	Financial Governance and Audit Manager	31 October 2006
10	<p>A robust and dynamic governance framework is crucial to the success of an organisation. In relation to CHPs/CHCPS, work should continue to develop the governance arrangements between the relevant Councils and NHSGG, particularly Glasgow City Council.</p>	Individual CHCP/CHP Directors	31 December 2006

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
11	NHSGG has embraced the new Performance Management arrangements specified by the SEHD. NHSGG management should ensure the initiatives specified in the LDP are implemented, recorded and reported in accordance with the Performance Management Framework.	Director of Performance Management	30 September 2006
12	It is anticipated that achievement of the 2007 Waiting Time targets will be challenging both in operational and financial terms. NHSGG management should ensure successful continuation of current practices and funding measures to ensure these targets are met.	Chief Executive	Throughout 2006/07
13	The Acute Services Programme Board should endeavour to ensure the timescales for completion of each stage of the project are delivered on time and to cost. Any delays will impact on the objectives of the programme, the projected position of financial balance and may result in disruption to service delivery.	Director of Acute Services Strategy Implementation and Planning	31 December 2006
14	The integration of Argyll and Clyde represents a major challenge for both organisations. Robust governance, planning and monitoring procedures will be required to ensure the success of the project, and ensure improved and consistent services are delivered throughout the new area within specified financial parameters.	Chief Executive	Throughout 2006/07 and beyond
15	NHSGG should continue to promote the ethos of Efficient Government in order to ensure appropriate savings are made. Initiatives around asset management, particularly the sharing of facilities with partner organisations, and procurement arrangements should continue to ensure tangible and measurable savings are achieved.	Various officers (co-ordinated by Director of Finance)	Throughout 2006/07
16	NHSGG should continue to ensure the processes and procedures are in place to support its duty in relation to Best Value : - <ul style="list-style-type: none"> • being to make arrangements to secure continuous improvements in performance; and • to have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development. 	Chief Executive	Throughout 2006/07

We recommend that the Corporate Management Team ensures delivery of this action plan and the Audit Committee/Board monitors prompt completion, together with those action plans contained in our previously submitted reports set out in [Appendix 5](#).

Appendix 2: Responsibilities of External Audit and the Board and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Board and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Board regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Board and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Board or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Board. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Board and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Board to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

It is the responsibility of the Board to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Board has put in place to secure economy, efficiency and effectiveness in its use of resources.

We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Board during the year as listed at **Appendix 5**.

Appendix 3: Audit Opinion

Independent Auditor's report to the members of Greater Glasgow Health Board, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements of Greater Glasgow Health Board ("the Board") for the year ended 31 March 2006 prepared under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Board, Accountable Officer and Auditors

The Board and Accountable Officer are responsible for preparing the annual report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Board.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited, which solely concerns Board Members and Senior Employees remuneration, have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. We also report whether 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. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the Board's compliance with the Scottish Executive Health Department's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Board as at 31 March 2006 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Regularity

The Counter Fraud Services (CFS) of National Services Scotland (NSS) performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for Greater Glasgow Health Board for 2005/06 suggests that exemptions amounting to £7.2 million may have been given that were not eligible. As a result of the work by the CFS and the potential control deficiencies which may exist, the Board has outlined this matter concerning patient exemptions in its Statement on Internal Control.

In our opinion and taking account of the above noted matter, 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.

PricewaterhouseCoopers LLP
Glasgow

27 June 2006

Appendix 4: PPP/PFI Schemes

PFI/PPP Schemes

NHSGG operated four PFI/PPP schemes during 2005/06. These were as follows:

- An elderly bed facility consisting of 72 beds at Mearnskirk House. This contract commenced in 1997 and is due to expire in July 2018. The contract encompasses the finance, design, build and operations of the facility. The contract payments provide for the running of the facility including areas such as catering and also provides for the staff of the facility, excluding medical and nursing staff.
- A care of the elderly facility with Town Hospitals contained within the Southern General Hospital site, providing 210 beds for housing patients in Elderly Assessment, Medicine for the Elderly and younger physically disabled. This contract commenced in 2001 and is due to expire in March 2029. The contract provides for similar items as above.
- Provision of Hospital Information System (HIS) system, the patient management record system and support for the system, for the Southern General and Victoria Infirmary. The contract originally commenced in 2001, with the supplier changed in February 2003. The contract was renegotiated to include Victoria Infirmary from April 2005. This contract is due to expire in March 2009. The PFI/PPP is for a fully managed service providing a patient records system, as well as clinical services, such as requests for lab tests. This includes software upgrades, statutory required changes to the system, as well as Data Recovery Protection services, which are tested once per annum.
- Provision of HIS system for Yorkhill Hospital. This contract commenced in 1997 and is due to expire in December 2007. The provision is similar to stated above for the Southern General and Victoria Infirmary.

Two additional PFI/PPP schemes have been approved by the Board and are due to start construction in summer 2006. These are as follows:

- Stobhill Forensic Unit. This consists of a 74 bed self standing inpatient unit for patients with forensic psychiatric conditions. This contract is due to commence in March 2007 for 35 years. The capital works for this project commenced in October 2005, with a planned completion date of March 2007. NHSGG would then take over the building for operational use at this time.
- Gartnavel Royal Hospital. A self-standing mental health hospital containing 117 beds is to be developed. This is due to become operational in October 2007, with a contract duration of 30 years. The capital works for this project commenced in October 2005, with a planned completion date of March 2007. NHSGG would then take over the building for operational use at this time.

Appendix 5: PwC Reporting in 2005/06

Agreed Output	Audit Committee	Corporate Partnership Support Group	Acute Support Group
Audit Plan	3	N/A	N/A
Follow-up Reports	3	3	3
Priorities and Risks Framework (PRF)	3	N/A	N/A
Internal Control Reports	3	3	3
Efficient Government	3	N/A	N/A
PRF Update	3	N/A	N/A
Annual Report to Members	3	N/A	N/A
Audit Opinion	3	N/A	N/A
Final Management Report	N/A	3	3
Governance Structures and Risk Management	3	3	3
ASR (including ACADs)	3	N/A	N/A
A&E	3	N/A	N/A
Bed Modelling	3	N/A	N/A

Appendix 6: Key to commonly used acronyms

NHSGG	-	National Health Service Greater Glasgow
NHSGG&C	-	National Health Service Greater Glasgow and Clyde
PRG	-	Performance Review Group (Sub Committee of the Board)
PwC	-	PricewaterhouseCoopers LLP
SEHD	-	Scottish Executive Health Department
FHS	-	Family Health Services
CHPs	-	Community Health Partnerships
CHCP	-	Community Health and Care Partnership
HEAT	-	Performance Targets - (Health improvement, Efficiency and Effectiveness, Access and Treatment)
LDP	-	Local Development Plan

Freedom of Information (Scotland) Act 2002

This report is intended solely for the information of the Members of the Board of NHS Greater Glasgow and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, it will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. NHS Greater Glasgow agrees to pay due regard to any representations which PwC may make in connection with such disclosure and NHS Greater Glasgow shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, NHS Greater Glasgow discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

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