

NHS National Services Scotland

Report on the 2005/6 Audit

 AUDIT SCOTLAND

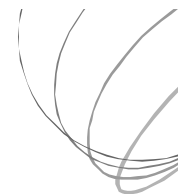
June 2006





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Summary

Introduction

In 2005/6 we looked at the key organisational risks facing NHS National Services Scotland (NSS). These strategic risks included service sustainability, information management, managing the workforce, governance and arrangements made towards the achievement of Best Value and the Scottish Executive's efficient government initiative. We audited the financial statements and looked at aspects of performance management and governance.

Service Sustainability

The Kerr report – '*Building a Health Service Fit for The future*' – represents a major development within the NHS in Scotland. NSS is responding to this by ensuring that each Division assesses the implications of the Kerr report for the future delivery of services.

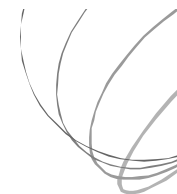
NSS also sponsors a number of national initiatives designed to make the wider health system more efficient and effective. These include Shared Support Services, National Procurement and Logistics. The project management focus of much of this work can present risks in relation to the completion of projects on time and within budget. NSS has taken a number of steps to address these risks through the development of its governance arrangements.

During the year, NSS internal quality assurance processes highlighted the future viability of the Protein Fractionation Centre (PFC – a part of the Scottish National Blood Transfusion Service within NSS) as a major concern. Consequently, our Audit Risk Analysis and Audit Plan made reference to this as a key risk area. Production at the centre was voluntarily suspended in January 2006 following a critical inspection visit from the Medicines and Healthcare Products Regulatory Agency (MHRA). Subsequent to the year-end the Minister for Health and Community Care decided that there should be no resumption of full scale production of plasma products and plans for the sale of the PFC, as well as Alba Bioscience (another trading function within the Scottish National Blood Transfusion Service), should be progressed.

Information Management

We carried out a Computer Services Review (CSR) of the Information Management & Technology (IM&T) service provision. Overall, our CSR focused on the identification and assessment of the key IM&T risks to NSS in achieving its business and operational objectives including the absence of a Corporate Information Security policy to which existing divisional policies should be aligned.

A consortium of internal NHS computer auditors, drawn from a number of NHS Boards, reviews the operations of the National IT Services Contracts. From our assessment of this review and our own audit work on the IT environment, we concluded that NSS continues to perform its role in managing the core



aspects of the NHSScotland eHealth Strategy. NSS also completed the task of reviewing the published National IT Security and Policy Manual. Further, it prepared a new NHSScotland Information Security Policy that complies with the key standards.

Financial Position

We have given an unqualified opinion on the financial statements of NSS for 2005/06. NSS's financial performance in 2005/6 was as follows:

Table 1 - 2005/6 Financial Performance

Description	£ million
Adjusted cumulative surplus b/fwd	7,336
Actual in-year operating excess/(deficit)	(2,259)
Cumulative surplus	5,077

Source: Annual accounts 2005/6

Workforce Management

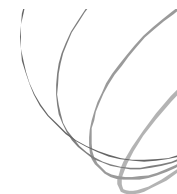
NSS continues to face a number of challenges in relation to workforce management. Progressing Agenda for Change is proving to be very difficult. The staff profiles within NSS do not fit with the standard Agenda for Change job profiles due to the specialist nature of staff employed by NSS. Slow progress in the job matching process presents a number of risks to NSS, including pressure on HR staff to progress Agenda for Change whilst continuing normal business processes. Also, the financial implications of Agenda for Change are not known at this time.

Recruitment and retention of senior and specialist staff in key posts across the organisation is a recurring issue that NSS has to contend with. Competition from the NHS in England and from the private sector, offering higher remuneration packages than can be offered by NSS in the context of existing job evaluations, makes recruiting the right people for the right posts a particular challenge.

Best Value and Efficient Government

Although there is no statutory duty of Best Value in the NHS, 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. As part of our 2005/6 work we carried out a baseline review of Best Value arrangements within NSS. From this work we are able to conclude that NSS can demonstrate a commitment to Best Value principles and continuous improvement.

NSS plays a pivotal role in progressing the Efficient Government agenda across NHS Scotland. There are three strands to its role: the National Shared Support Services project, the best procurement initiative and the national logistics project. The outline business case for the National Shared Support Services



projected recurring savings of £10 million per annum. A full business case was expected to be in place by March 2006 but this has now been revised to December 2006. Also, estimates of recurring savings have now been downgraded because health boards have already made savings through single system working.

The new National Procurement Division within NSS is responsible for strategic sourcing, e-procurement and logistics. The Division was instrumental in NHSScotland's achievement of its target of £50 million of savings by the end of March 2006 through the availability of strategic buying arrangements. The National Logistics Project is also led by NSS. This will generate savings by restructuring the supply chain to link points of consumption at hospital sites with efficient distribution facilities and direct supply from manufacturers. A start has been made through the opening an Interim Distribution Centre at East Kilbride in April 2006. Construction of a more permanent National Distribution Centre at Larkhall has been commissioned and will be operational in 2007.

Governance

NSS is making progress in delivering the actions agreed in the Staff Governance Action Plan for 2005/6. We concluded that the Board has made good progress with 23 (55%) of the 42 agreed actions completed and 18 (43%) partially complete. In one area i.e. Agenda for Change, NSS has made limited progress.

Clinical Governance arrangements have been strengthened through the compilation of an annual report which was submitted to the NSS Board in June 2006. The annual report highlighted the slow progress being made in fully implementing action points contained in an Internal Audit report from November 2003.

Risk management is a high priority in each Division of NSS; assessments are carried out within the Division and monitored through the NSS-wide performance assessment process. The main risks associated with the operation of each division are identified and reviewed. Risk management continues to be fully incorporated into the corporate planning and decision-making processes of NSS.

Corporate Governance issues relating to the Service Audit and credit control within NSS have been progressed in 2005/6. The Service Audit report only covered transactions up to 31 January 2006. The NSS Director of Finance has provided NHSScotland Boards with a letter of assurance that no major changes to processes have taken place in the final two months of the financial year.

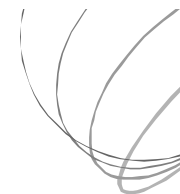
A centralised credit control function within NSS, set up in April 2006, will enable the monitoring and collection of debt to be undertaken in a more structured and focused manner. We will monitor progress in this area in 2006/7.

Audit Scotland
June 2006



Introduction

1. This report summarises the findings from our 2005/6 audit of NHS National Services Scotland (NSS). The scope of the audit was set out in our Audit Risk Analysis and Plan, which was presented to the Audit and Risk Committee on 16 January 2006. This plan set out our views on the key business risks facing NSS and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in these reports. Each report sets out our detailed findings and recommendations and NSS's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the final year of our current five year audit appointment and we have been reappointed for a further five years covering the period 2006/7 to 2010/11. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of NSS during the course of our appointment.
4. This report will be submitted to the Auditor General for Scotland and will be published on our website www.audit-scotland.gov.uk.



Organisational Risks

Introduction

5. In our Audit Risk Analysis and Plan, we identified five main areas of risk for NSS. We also described longer term planning issues that will impact on NSS and our audit in the future. In this section, we describe the risks and our views on their current status.

Service sustainability

6. In our Audit Risk Analysis and Plan, we also commented on the risks that initiative overload present to NSS. NSS is a key central function within NHS Scotland and provides services and support to other Health bodies in some of the most challenging areas of Health development. In the present period of rapid change, there are a substantial number of new developments which fall to NSS to manage and new Divisions are being set up to manage some of these. This could lead to an overload on management capacity. The establishment of the Corporate Programme Office (CPO) in April 2005 has helped NSS to mitigate this risk by maintaining tighter monitoring and control across a large number of on-going projects. The CPO also provides advice and assistance to managers in applying best practice in project management.

Refer Risk Area 1

7. The Kerr report – ‘*Building a Health Service Fit for The future*’ – represents a major development within the NHS in Scotland. NSS is responding to this by ensuring that each Division assesses the implications of the Kerr report for the future delivery of the services which it manages. For example, ISD will review data collection, the provision of accurate information and the development of IT systems. Reliable and accurate data is essential for informing the development of safe and effective delivery of NHS services.
8. During the year, NSS internal quality assurance processes highlighted the future viability of the Protein Fractionation Centre (PFC – a part of the Scottish National Blood Transfusion Service within NSS) as a major concern. Consequently, our Audit Risk Analysis and Audit Plan made reference to this as a key risk area. An inspection visit by the MHRA highlighted concerns about quality control in relation to plasma products. This led to a voluntary suspension of production in January 2006 and the purchase of plasma-derived products from commercial markets. This contributed to a significant overspend against budget of £4.255 million within the SNBTS Division. A strategic review had previously been carried out to consider the future direction of both PFC and Alba Bioscience. The outcome of this review was a decision by the Minister of Health and Community Care not to resume full scale production of plasma products and to proceed with plans for the sale of PFC as well as Alba Bioscience. This decision was taken after the year-end and therefore was disclosed as a post balance sheet event note in the accounts.

Refer Risk Area 2



9. NSS has made progress in developing services that support the wider health system. In November 2005, National Procurement was launched as a new division of NSS. This new division was formed from the merger of elements of the existing Scottish Healthcare Supplies division and the Best Procurement Initiative Teams. Its remit is to deal with strategic sourcing, e-procurement and logistics on behalf of the Health Service and to achieve cost savings and service improvements through improved collaborative working across all NHS Boards.
10. Senior officers from NSS have been appointed to lead on the National Shared Support Services project that will modernise the way in which support services are provided across the NHS in Scotland. An outline business case has been approved and the project team is working towards full approval in 2006/7. The process has been subject to a number of delays in its development and the expected date for the full business case has now moved to December 2006. The project has also been re-scoped during its development to reflect the difficulties encountered (for example, Internal Audit Services have been withdrawn from the main programme). We have concerns over whether the project will be implemented on the revised timescale and generate the planned level of savings.
11. NSS has also been given responsibility for implementing the national logistics strategy. This will provide NHSScotland with a fit for purpose and efficient logistics infrastructure, which compares with the best in industry. The three year project roll out plan saw the first health boards – NHS Ayrshire & Arran and NHS Dumfries & Galloway - migrate onto the new strategy in early 2006.
12. Preparation has also been completed for the incorporation of a new Division – Health Facilities Scotland – from 1 April 2006. This Division replaces the former NHS Scotland Property and Environment Forum. Its remit will be to consider government policy in a number of areas (e.g. health engineering, technology, energy, estate management, etc) with the aim of how best to implement policy on a national scale. It will also be responsible for setting common agreed technical standards for estates related matters.

Information Management

13. NSS through the National Information Systems Group (NISG) manages a range of IM&T services used throughout Scotland including: the National IT Services contract (outsourced to Atos Origin); the General Practice Administration System for Scotland (GPASS); the national data network and the Community Health Index (CHI). These systems underpin the delivery of NHSScotland's eHealth Strategy and are integral to the activities of all NHSScotland organisations.
14. A consortium of internal NHS computer auditors, drawn from a number of NHS Boards and led by the Chief Auditor of FTF Audit and Management Services, performs a key role in reviewing the operations of the National IT Services Contracts. The consortium's review also covers security and business continuity arrangements for a range of applications including payroll and the CHI system. From our review of the work carried out by the consortium, and our own work, we concluded that NSS continues to perform its role in managing the core aspects of the NHSScotland National IM&T Infrastructure that supports the delivery of the vision set out in the NHSScotland eHealth Strategy.



15. NSS has also made progress in a number of related areas. In 2005/6, NSS completed the task of reviewing the published National IT Security and Policy and Manual. It also prepared a new NHSScotland Information Security Policy that complies with the principles of ISO/IEC 17799. The NHSScotland IT Security Officer Forum endorsed this policy as the new standard to which all NHSScotland organisations should align when reviewing their own information security arrangements.
16. A specific risk highlighted in our Audit Risk Analysis and Plan was the planned relocation of the National IT Services primary data centre from the Maryfield House site in Dundee to a new purpose built facility at Livingston. This relocation was planned to take place before March 2006 and we had concerns about the risk to service continuity caused by a change so close to the end of the financial year. The relocation did not take place until May 2006 and there were no disruptions to service delivery.
17. Our own risk assessment carried out during the planning of the 2005/06 highlighted that there is a lack of an effective interface between the e-procurement system (i.e. PECOS) and the Integra Ledger system operated by NSS. The ledger system is not due for replacement until April 2007. There is a risk, therefore, that the lack of functionality between these systems may hinder some of the potential benefits to be derived from e-procurement.

Refer Risk Area 3

Managing the workforce

18. The SEHD have set a revised deadline for all NHS staff to be assimilated onto the new Agenda for Change (AfC) pay scales by 31 October 2006 and for all arrears of pay to be paid by 31 December 2006. Across the NHS in Scotland and particularly in NSS, progressing AfC is proving to be a slow and resource consuming process. The staff profiles within NSS do not fit with the standard AfC job profiles due to the specialist nature of staff employed by NSS. Slow progress in the job matching process presents a number of risks to NSS, including pressure on HR staff to implement AfC while undertaking their normal duties. There is a risk that NSS staff will not be assimilated onto new pay scales by the SEHD deadline of October 2006. Also the full financial implications of AfC cannot accurately be costed until further progress is made.

Refer Risk Area 4

19. Recruitment and retention of senior and specialist staff in key posts across the organisation is a recurring issue that NSS has to contend with. Competition from the NHS in England and the private sector, offering higher remuneration packages than can be offered by NSS in the context of existing job evaluations,, makes recruiting the right people for the right posts a particular challenge.

Best Value and Efficient Government

20. NSS was given responsibility for the National Shared Support Services (SSS) project in September 2004. A Project Board, with representatives from all stakeholders including health boards and the SEHD, has been established to take forward this initiative. The SSS will have a significant impact on



staff throughout the NHS in Scotland. On one hand, it will provide career and personal development opportunities for the staff migrating to the Shared Support Services Organisation, but there are also staffing issues and concerns throughout the wider Service in terms of potential displacement. These issues of uncertainty and staff morale are for NHS Scotland to address in a wider context, but have a potential impact on NSS's project management of this development. Progress has been slower than anticipated due to delays in compiling a final business case and in deciding the location of the two 'Hubs' that will centrally process transactions. Also, local NHS systems have still to agree with the SSS project team the number of financial and management accountants that need to be retained in health boards to service local needs. Moreover, the projected £10 million annual recurring savings anticipated for the project now seem over stated based on current information received from health boards.

Refer Risk Area 5

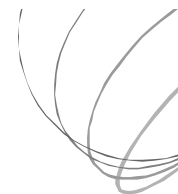
21. Accountable Officers in the NHS have a duty to ensure that arrangements are in place to secure Best Value. There is no statutory duty of Best Value in the wider public sector outwith local government. We carried out a local review of arrangements for Best Value at NSS. Overall, we found evidence that NSS is committed to Best Value principles and continuous improvement. The findings from our local review are outlined in more detail in the Performance Management section of this report, specifically paragraphs 41 to 45.
22. The Efficient Government agenda is a key element of the Scottish Executive's policy for reducing waste, bureaucracy and duplication in Scotland's public sector. NSS is at the forefront of many Efficient Government initiatives and leads on a number of national projects. As previously mentioned, NSS is responsible for the implementation of the National Shared Support Service. In addition it has established a new National Procurement Division to take forward strategic sourcing and e-procurement. Further, NSS is developing a new logistics strategy aimed at simplifying the physical supply chain and releasing clinical staff from ordering processes. When fully operational in 2008 the logistics strategy is intended to save the NHS in Scotland some £10 million per annum.
23. As part of planned audit work in 2005/06 we carried out a review of Efficient Government arrangements. Our preliminary findings are summarised at paragraphs 46 to 53 of this report.

Corporate Governance

24. In our audit planning documents we identified two specific risks. The first related to the work of the Service Auditor and their review of the control environment for processing practitioner data and paying primary care contractors. Our concern was due to the fact that the Service Auditor could only provide assurances on the control environment for the period 1 March 2005 to 31 January 2006 and not the full year. The Director of Finance for NSS provided a separate letter of assurance to all health boards confirming that throughout February and March 2006 there were no significant changes to computer systems or process within the Practitioner Services Division and that the control environment was the same as that reviewed by the Service Auditor. This additional assurance addressed our concerns.



25. The Audit and Risk Committee had raised the subject of aged debt on a number of occasions during the year. Management commissioned internal audit to review credit control arrangements and they found no significant areas of concern. Additionally as part of the Internal Support Services Review management established a centralised credit control function within headquarters to review and follow-up outstanding balances. Management have taken appropriate steps to strengthen and improve this area.



Financial Statements

Our Responsibilities

26. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - the regularity of the expenditure and receipts.
27. We also review the Statement on Internal Control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall Conclusion

28. We have given an unqualified opinion on the financial statements of NHS National Services Scotland for 2005/6.

NSS's Financial Position

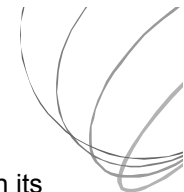
29. NSS is required to work within the resource limits and cash requirement set by the Scottish Executive Health Department. NSS's performance against these targets is shown in Table 2 below.

Table 2 - 2005/6 Financial Targets Performance £'000s

Financial Target	Limit as set by SEHD	Actual Outturn	Variance (Over)/Under
Revenue Resource Limit	263,340	258,263	5,077
Capital Resource Limit	21,880	21,878	2
Cash Requirement	250,000	248,964	1,036

Source: Annual accounts 2005/6

30. NSS returned a saving of £5.077 million against its prescribed Revenue Resource Limit in 2005/6. At its April Board meeting, NSS had forecast an overspend in 2006/7 of £7.561 million predominantly due to the financial impact of the suspension of manufacturing at PFC. On-going discussions with the SEHD secured additional funding for NSS, enabling the forecast to be revised to a breakeven position.



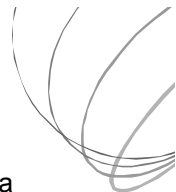
31. NSS faces a challenging year ahead in attempting to remain in financial balance. NSS forecast in its five year Corporate Business Plan that they plan to make efficiency savings of £2.6 million in 2006/7 against an in-year funding gap of £139,000. Increasing financial pressures relating to PFC and further central initiatives from the SEHD, such as the Picture Archiving and Communications System (PACS), will require continued close monitoring and control of income and expenditure in the coming financial year.
32. As previously outlined at paragraph 8 the suspension of production at the PFC has contributed to a budget overspend in the SNBTS Division. NSS has created a provision of £4.562 million to cover a potential stock write off against intermediate and finished plasma stocks. Further, the Minister for Health and Community Care decided that both PFC and Alba Bioscience should be sold off. As the decision was taken after the year-end this has been disclosed as a post balance sheet even in the accounts. The financial statements for 2005/6 have not been adjusted to reflect this event, as an estimate of the financial effect cannot yet be made.

The Issues Arising from the Audit

33. We reported the following issues to the Audit and Risk Committee on 30 June 2006:
 - **Agenda for change provision:** we drew specific attention to the provision of costs for the Agenda for Change (AfC) programme for the period October 2004 to March 2006. Such a provision is necessary to reflect anticipated costs in 2005/06 but which as yet have not been fully determined by NSS. This resulted in an initial provision of £6.557 million. The final audited figure was £8.148 million reflecting the specialist nature of certain NSS job profiles. We asked NSS for formal assurances, in a letter of representation, that the methodology used in determining the provision, in their judgement, best reflects anticipated costs.

Resolution: NSS has confirmed that, based on information currently available, the methodology used best reflects anticipated costs. The value of the provision in the accounts has been increased to reflect the financial impact of AfC.
 - **Cashflow statement:** the Unified Board Accounts Manual states that NHS Boards should have a closing general fund creditor equal to the closing cash balance at the year-end. NSS's accounts vary from the guidance prescribed in the manual. The closing general fund creditor is shown as £1.395 million while the closing cash balance is shown as £2.367 million. There is a difference, therefore, of £972,000. This is also the difference between the movement in general fund working capital of (£0.111 million) and the increase in cash in the year of £0.861 million as disclosed in the cashflow statement. Finance staff explained that NSS differs from territorial Boards in that its Office of the Paymaster General's (OPG) account balance includes £972,000 drawn down by NSS to fund payments made on behalf of NHS Boards to Primary Care Contractors. This amount is disclosed separately as a creditor due to the SEHD. We asked finance staff to contact the SEHD to confirm the appropriateness of the accounting treatment for this balance.

Resolution: Finance staff contacted SEHD and confirmed that NSS's accounting treatment of the £972,000 is appropriate.



- **Trinity Park House Liability:** the original draft accounts received by external audit included a contingent liability of £1.3 million. The liability related to the potential dilapidation costs at Trinity Park House. The amount was queried with finance staff and they confirmed with their advisers that the contingent liability was no longer required.

Resolution: NSS have removed the contingent liability from the final version of the accounts.

- **Equal pay claims:** following recent successful equal pay claims from staff in the NHS in England there is a possibility that similar claims may be raised by Health Sector staff. This could represent a contingent liability to NSS. We were informed by finance staff that NSS is unlikely to face significant challenge on this issue although, in consultation with HR, they accept that some claims may be made. We asked NSS to confirm this view in the Letter of Representation.

Resolution: A contingent liability disclosure has been included in the final version of the accounts.

- **Stock provision:** subsequent to the receipt of the original draft accounts an issue arose about the potential write-off of stock at the Protein Fractionation Centre (PFC). This amounted to £4.562 million. The issue arose when the Medicines and Healthcare Products Regulatory Agency (MHRA) raised concerns about quality control procedures being compromised in relation to blood products manufactured by PFC. This resulted in a suspension in manufacturing and retention of blood products already held in stock. Management, therefore, considered it prudent to provide for the potential write-off this stock.

Resolution: The value of the provision in the final version of the accounts has been increased to reflect the financial impact of the quality control issues at PFC.

- **Misclassification between the Ledger and Fixed Assets Register** – a review of the general ledger against the fixed asset register highlighted a difference between the opening values of plant and equipment assets and the corresponding opening depreciation values. These were both over-stated in the general ledger by £2.324 million. Overall, the net effect of this is nil. This difference arose due to a change in the classification of assets in the fixed assets note to the accounts. Figures for plant and equipment assets were incorrectly allocated when being reclassified in the general ledger thereby preventing a full reconciliation to the fixed assets register.

Resolution: The misclassification between the ledger and fixed assets register was resolved prior to the closure of the general ledger for 2005/06.

Statement on Internal Control

34. The Statement on Internal Control provided by the Accountable Officer reflected the main findings from both external and internal audit work. The Statement refers to a number of processes developed during the year to further enhance internal control, including the continued development of risk



management processes, including a risk review workshop. Risk management also continues to be fully incorporated into corporate planning and decision making processes within NSS.

35. The Statement refers to areas of internal control that need to be strengthened, including:
 - some areas of weakness were identified around Emergency and Contingency Planning arrangements;
 - plans for a Research Governance Framework and External Communications Strategy will be progressed; and
 - a centrally supported and approved programme for clinical effectiveness and quality improvement will be put in place.

36. The Audit and Risk Committee further strengthened its governance role by overseeing the risk management system and reviewing the output of divisional and corporate risk assessments.



Performance Management

Introduction

37. This section covers our assessment of the way in which NHS National Services Scotland secures value for money in the use of its resources. This year we focussed on three main areas:

- Workforce Planning;
- Best Value; and
- Efficient Government.

Workforce planning

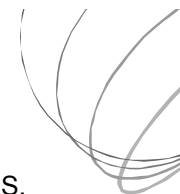
38. Our Audit Risk Analysis and Plan for 2005/6 identified workforce management as a key challenge for NSS. In particular, we identified Agenda for Change as a particular challenge and noted that NSS is unlikely to meet the SEHD's deadline of 31 December 2006 for assimilating all staff onto new pay scales.

39. We have recently concluded our work on workforce management and will be reporting to management in July. Our preliminary findings show that NSS has made progress in implementing the agreed actions in our Work Force Management Report 2004/5. Also, NSS has developed a workforce development plan (WDP) that mostly complies with SEHD guidance. There are some actions required to ensure that the WDP complies fully with the SEHD guidance including the need to ensure that all actions in the WDP action plan are expressed in SMART (**S**pecific **M**easurable **A**ction oriented, **R**ealistic and with **T**imescale) terms.

40. Other findings include the challenge of recruiting and retaining senior management and specialist staff when faced with competition from the wider labour market and the NHS in England. Failure to attract and retain senior managers could have an adverse impact on leadership and corporate development.

Best Value

41. There is no statutory duty of Best Value in the wider public sector other than for local government. Instead, 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. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector, and the 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.



42. As part our 2005/06 work we carried out a baseline review of Best Value arrangements within NSS. The primary aim of this review was to establish the arrangements put in place by management for taking forward the Best Value agenda and demonstrating continuous improvement. In carrying out our review we made use of a number of sources of evidence, primarily:
- the Best Value self-assessment prepared by management ;
 - information collated for our Priorities and Risks Framework document; and
 - information gathered from our review of Committee and Board minutes.
43. Overall, NHS National Services Scotland can demonstrate commitment to Best Value and continuous improvement. We found the Board's Best Value arrangements to be either under development or well developed as summarised below.

Best Value Characteristics	Under Development	Well Developed
Commitment and Leadership	√	
Sound Governance at a Strategic & Operational Level	√	
Accountability	√	
Sound Management of Resources & Contractual Arrangements		√
Responsiveness and Consultation		√
Use of Review and Options Appraisal		√
Contribution to Sustainable Development		√
Equal Opportunities Arrangements		√
Joint Working		√

44. We also identified several areas of good practice including, for example:
- **The Office Mentor (TOM) Scheme** - TOM helps to reinforce the organisational culture for both new and long serving managers and captures the organisational style. This on-line database provides managers with advice and information on a wide variety of topics e.g. delegation and empowerment. It encourages users to keep a journal of what actions they have taken on specific issues and to self-monitor progress against these actions. TOM also provides managers with access to all NSS policies and training materials including hyper-links to learning centre resources.
 - **Strategic Performance Reviews** - Strategic Performance Reviews are held bi-annually with each division. These reviews are carried out by a panel consisting of the Chief Executive, Director of Finance, Medical Director, Director of HR and Workforce Development and other Directors independent of the Division subject to review. The review process includes an overview of progress against plans and an assessment of all aspects of performances (financial and operational).



- **The NSS Equality & Diversity Toolkit** - NSS has adapted an impact assessment toolkit issued by SEHD to a more streamlined version. This is used to assess the impact of NSS's functions and policies to determine if they impact adversely on end users of services (staff or the public) and therefore are in some way discriminatory, or if any adjustments require to be made to make them fully accessible, e.g. providing information in a minority language or alternative format.

45. Management in their response to our baseline review have prepared an action plan of improvements and this will feature in a local audit report that will be issued in July.

Efficient Government Initiative

46. The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector' (*Building a better Scotland*, Scottish Executive, 2004). 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. 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. The NHS in Scotland is expected to contribute £166 million of cash releasing savings and £173 million of time releasing savings per year.

47. NSS operates at two distinct levels on the Efficient Government agenda. Firstly, it looks to identify internal savings as a separate NHS body. Progress is being made on a number of fronts. NSS's strategy for asset management has seen staff move to new properties in Edinburgh (HQ staff), Aberdeen, Livingston, and Glasgow (PSD staff). This has enabled NSS to replace old accommodation with new ergonomic office space which provides 'fit for purpose' working environment to meet the needs of the organisation's current and future business needs.

48. Also, as part of its Internal Support Services Review, NSS has recently established a central purchasing function. Other developments include the corporate portal and corporate records management which will streamline bureaucracy within NSS. Many of the anticipated savings are time releasing in nature due to more efficient working practices/processes and have not yet been quantified.

49. NSS, however, also has a key role in progressing the Efficient Government agenda across NHS Scotland. There are three strands to this role: the National Shared Support Services project, the best procurement initiative and the national logistics project.

50. The National Shared Support Services project aims to create shared services for the transactional elements of finance, procurement, payroll and practitioner services division payments to GPs, dentists, community pharmacists and optometrists. The project will operate on a 'hub and spoke' basis. It is anticipated that the project will generate £10 million of recurring savings when fully operational. However, many health boards have already implemented single system working and this



has reduced the scope for savings. Moreover, the original plan was to prepare a full business case by March 2006 and this has now been estimated to be complete by December 2006.

51. NSS lead's the National Procurement Division on behalf of NHS Scotland. This new Division was established in November 2005 and its role covers strategic sourcing, e-procurement and logistics. The Division met its target of achieving £50 million in savings by the end of March 2006. This figure represents a national saving across the NHS in Scotland.
52. The National Logistics project is also being led by NSS. The project covers a three year period and an initial start was made by opening an Interim Distribution Centre (IDC) at East Kilbride in April 2006. Construction of a more permanent National Distribution Centre (NDC) at Larkhall has been commissioned and will be operational in 2007. Savings will primarily be achieved by restructuring the supply chain to link points of consumption at hospital sites with efficient distribution facilities such as the NDC, and also to buy directly from manufacturers.
53. A detailed position statement of all public sector organisations in Scotland is being produced by Audit Scotland and will be issued shortly.

National Studies

54. In 2005/06, Audit Scotland carried out three national studies:
 - Staff Governance review of previous year's action plan. Our findings are reported in paragraph 72 and 73 of the section on governance;
 - Tackling Waiting Times in the NHS in Scotland (reported to the Scottish Parliament in February 2006); and
 - Implementing the NHS Consultant Contract in Scotland (reported to the Scottish Parliament in March 2006).

Tackling Waiting Times in the NHS in Scotland

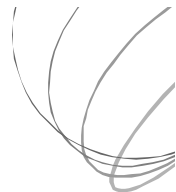
55. This national study reviewed the performance of the NHS in Scotland against current waiting times targets for elective healthcare. It evaluated whether the current approach produces value for money and assessed whether current strategies are likely to achieve sustained reductions in waiting times.
56. The report concluded that significant progress had been made towards meeting waiting times targets, but that the total number of people waiting for inpatient and day case treatment has changed little in the last two years. It recommended that more efficient use be made of the Golden Jubilee National Hospital.
57. The Information Services Division (ISD) played an important part in the study by providing the study with access to published and unpublished data on waiting times.



Implementing the NHS Consultant Contract in Scotland

58. This report concluded that there were no clear benefits from the £235 million cost arising from the implementation of the consultant contract. It also highlighted that the new contract offers an opportunity to focus the work of consultants on priority areas, and improve patient care. However, it is not yet being used to its full potential and there is limited evidence of benefits to date. The report also noted that the consultant contract had contributed to cost pressures for boards as the national costing model used by the SEHD contained inaccuracies and it underestimated the financial cost by £171 million, on a national basis, for the first three years.

59. This report noted that in the period 2003/3 to 2005/6 the consultant contract pay bill increased in average by 38% in the NHS Scotland. In the case of NSS, the increase was considerably higher at 68.5% or £2.94 million.



Governance

Introduction

60. This section sets out our main findings arising from our review of NHS National Services Scotland's governance arrangements as they relate to:

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

Clinical Governance

61. Clinical Governance within NSS is overseen by the Clinical Governance Committee which is a sub-committee of the NSS Board. It receives reports on aspects of the quality assurance of services likely to have an impact (direct or indirect) on patient care and provides regular reports to the NSS Board on relevant issues. The Committee met on three occasions in 2005/6.

62. Clinical Governance arrangements have been strengthened in 2005/6. The first annual report of the Clinical Governance Committee was submitted to the Board meeting on 30 June 2006. The Clinical Governance Committee also noted that a self-assessment of clinical governance and risk management arrangements prior to a NHS QIS inspection planned for December 2006.

63. The Clinical Governance Committee's annual report also identified the following issues;

- clinical risks must be reviewed to ensure that they become more central to the corporate risk management process; and
- further work is required to conclude the implementation of recommendations in an Internal Audit report on clinical governance dating back to November 2003.

Corporate Governance

64. Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and NSS's financial position. We have made comment on the financial position at paragraphs 29 to 32.

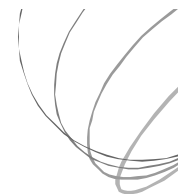
65. We relied on the work of Internal Audit to give us assurance in relation to aspects of our governance responsibilities particularly those relating to systems of internal control. Additionally, we looked at one further specific area of risk i.e. a computer services review. The aim was to review the governance arrangements in place and identify potential risks that could be of interest to management.



66. Risk management is incorporated into the corporate planning and decision-making processes of NSS. During 2005/6 risk assessments were carried out within each division and monitored through the NSS wide performance assessment process. A risk review workshop was also held in May 2005.
67. The Audit and Risk Committee oversees risk management. During the year the Committee also reviewed the output of Divisional and Corporate risk assessments. Our regular attendance at Committee confirmed that this arrangement operated effectively.

Computer Services Review

68. The main aim of a Computer Services Review (CSR) is to provide a high-level risk based assessment of Information Management & Technology (IM&T) service provision. It provides an indication of strengths as well as identifying potential areas where improvements could be made in respect of internal controls or IM&T administrative arrangements.
69. Our CSR highlighted a number of areas of good practice, including:
 - an IM&T Strategic Plan prepared by the cross-divisional IM&T Strategy Group and approved by the NSS Board;
 - the establishment of an IM&T Strategy Monitoring & Evaluation Group to monitor delivery of the IM&T Strategic Plan;
 - an Information Security Co-ordinating Group which meets on a monthly-basis to agree and approve common principles for protecting information within NSS; and
 - major IM&T projects are managed using structured project management techniques, e.g. Prince2.
70. We also identified some risks that management will wish to consider, the most significant of which are summarised below:
 - there is no published plan and target completion date for the IT infrastructure programme. This could lead to the continued use of an incompatible, non-supported server and desktop infrastructure for longer than desired;
 - the absence of a current Corporate Information Security Policy aligned to divisional policies means that there is a risk of different security practices being developed within NSS; and
 - the continuing draft status of the Employee Monitoring Policy means that inappropriate use of IT services may not be identified and prevented. Consequently, compliance with published divisional security policies cannot be assured.
71. Management have agreed an action plan and identified steps that will mitigate the risks identified in our report.



Staff Governance

72. NHS National Services Scotland completed a self assessment audit and a staff survey to assess their effectiveness in staff governance. The self-assessment process was carried out in partnership with significant staff involvement. The resulting action plan was approved by the Staff Governance Committee and Partnership Forum, and so had agreement and support across the organisation. This work is part of an ongoing NHS Scotland initiative designed to recognise the value and importance of staff in service delivery and generally improve staff relations in the NHS.

73. This year we identified and assessed the risks associated with Staff Governance as part of the audit planning process and we reviewed the evidence that the previous year's action plan is being delivered. We concluded that NHS National Services Scotland had made good progress in achieving actions agreed last year. We found that of 42 actions in last year's action plan, twenty-three (55%) were fully implemented and eighteen (43%) are partially complete. Progress against one action (i.e. 'Assimilate all appropriate staff onto Agenda for Change Banding') has been limited because of difficulties in 'matching' posts as part of the Agenda for Change. The specialist nature of most job profiles within NSS makes this process particularly difficult to manage.



Looking Forward

74. NHS National Services Scotland faces significant challenges in 2006/7 which include:

- delivering the National Shared Support Services project on time. It is important that the full business case is compiled and approved within the revised timescale (December 2006). Further, the preferred 'hub' locations should be announced as soon as possible to reduce uncertainty in the NHS in Scotland;
- implementation and rollout of the Logistics strategy on a phased basis across the health service so that all NHSScotland organisations will be 'live' by 2008;
- Development of the approach to national procurement so that all NHS bodies can derive the benefits of advanced national procurement;
- re-tendering the National Managed Technical Services contract for IT. The successful re-tendering of this contract is essential to the continuity and delivery of many key systems operated within the NHSScotland including payroll, CHI and the Community & Preventative Care (CPC) systems. The new contract will be effective from April 2007;
- the successful implementation of ePharmacy on a phased basis commencing with the minor ailments and public health services (from April 2006) followed by the acute and chronic medication (October 2006 to April 2007);
- managing the closure/disposal of the Protein Fractionation Centre (PFC) following the Minister for Health and Community Care's decision to decommission the Centre and source plasma products from outside Scotland. NSS in disposing of the PFC must ensure that it optimises the returns from any disposal;
- progressing Agenda for Change. The SEHD require all Boards to assimilate staff by 31 October 2006,. but given the limited progress at NSS this deadline is unlikely to be achieved; and
- addressing the requirements of the new contracts for primary care practitioners will require additional automation within the Practitioner Services Division where a number of systems are presently labour intensive.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	6	The Number of new projects managed by NSS and the growth of the divisional structure could lead to delivery problems through management overload.	EMT and Board review of all new projects will ensure this does not occur.	Chief Executive/ Chairman	March 2007
2	8	NSS may not obtain Best Value from the required disposal or reassignment of the PFC and Alba Bioscience.	The NSS Board approved disposal process, including oversight by non-Executives, will ensure Best value for the NHS.	Chief Executive/ Director, SNBTS	March 2007
3	17	The full benefit of e-procurement may not be achieved due to interface problems between the ledger system and the PECOS system.	Interface issues will be addressed, as appropriate with Integra. NSS intend to move to the CedAR system early in the new financial year.	Director of Finance	June 2007
4	18	NSS may not successfully implement and derive the anticipated benefits from the Agenda for Change programme.	A revised approach to AFC has now been agreed with the Staff side, and significant additional resources to support the process have been identified. Regular feedback is provided to Partnership Forum, EMT and the NSS Board.	Director of HR and Workforce Development	December 2006
5	20	The National Shared Support Services project may not deliver the planned benefits including projected savings and the project may not be implemented in the planned timescale.	Action plan and Business case proposals being agreed with NHS Boards and SEHD. Implementation Plans and Benefits realisation processes will form part of these plans.	Director of Finance	December 2006