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EDINBURGH AND GLASGOW

NHS Quality Improvement Scotland
Annual Report to the Board and the Auditor General for Scotland 2005/06

June 2006

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1. SUMMARY

Governance

- It is essential that an effective reporting mechanism is established to ensure that the NHS QIS Board is able to undertake fully its governance responsibilities in relation to SHC. **Paragraph Reference 3.1.3**

- Financial training should be provided for existing non-executive members, with the Board giving consideration to co-opting an individual with relevant financial expertise to the Audit Committee. **Paragraph Reference 3.1.2**

- The Board should put in place a comprehensive training programme for all new appointments to the Board. **Paragraph Reference 3.1.1**

- Further improvements can be made to the Board's risk management arrangements and the scope for these improvements should be considered and reviewed. **Paragraph Reference 3.4.3**

Performance

- The NHS QIS outline business case for relocation has been taken before the Scottish Executive's Capital Investment Group and is currently being reviewed by Ministers. Concerns therefore exist that the impact of a slippage in the timescale may impact on the original costings included within the outline business case. **Paragraph Reference 4.3**

- NHS QIS should pursue the Scottish Executive for written confirmation of any future funding associated with the relocation project. **Paragraph Reference 4.3**

- NHS QIS should seek to ensure that four of the SHC sites are installed into the NHS QIS IM&T network and that staff can access the necessary information. **Paragraph Reference 4.6**

Finance

- NHS QIS met both of its financial targets for the financial year 2005/06 and also stayed within its budgeted cash requirement. **Paragraph Reference 5.2**

- We consider the Board's financial planning, budgetary control and reporting arrangements to be satisfactory.

- As the Board is limited as to the value of savings which can be carried forward to future financial periods and accumulated savings are finite, it must ensure that robust financial planning and project reporting arrangements are in place. This will ensure excess funding can be ring-fenced for future use or redirected to other priorities as appropriate. **Paragraph Reference 5.3.2**

Conclusion

This report concludes the 2005/06 audit of NHS Quality Improvement Scotland. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that NHS QIS has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Head of Finance and has been prepared for the sole use of the NHS QIS Board, the Auditor General for Scotland and Audit Scotland.

We would like to thank all members of NHS QIS's management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff
June 2006

2. INTRODUCTION

2.1 Audit Framework

The Auditor General for Scotland is responsible for reporting to the Scottish Parliament on how public bodies spend public money, manage their finances and achieve value for money in the use of public funds. In discharging this responsibility the Auditor General appoints NHS auditors and sets the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code for Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The Auditor General has appointed Scott-Moncrieff as auditors of NHS Quality Improvement Scotland (NHS QIS) for the five year period 2001/02 to 2005/06.

2.2 Key Priorities and Risks

Our audits are risk based. This means that we focus our resources on the areas of highest priority or risk to the Board. To help us identify these areas, Audit Scotland have developed a National Planning Tool setting out the following key priorities and risks for NHS Scotland as a whole.

- Governance – clinical, staff and financial
- Financial management
- People management
- Information management
- Performance management
- Service sustainability
- Partnership working
- Regional planning
- Efficient government

In order to define the scope of our work, we agreed with the Chief Executive the extent to which each of the above areas are key priorities and risks for NHS QIS.

2.3 Scope of the Audit

Our work can be classified under the following three headings: governance audit, performance audit and financial audit. The main audit objective for each of these areas is summarised below, along with the key priorities and risks for each area.

Audit areas v priorities and risks

Audit area	Audit objective	Key priorities and risks
Performance Audit	To review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.	Service sustainability Performance management Regional planning Partnership working People management Information management
Governance Audit	To review the Board's governance arrangements in relation to: • systems of internal control, • the prevention and detection of fraud and irregularity, • standards of conduct and prevention and detection of corruption, • its financial position.	Governance including clinical, financial and staff
Financial Audit	To provide an opinion on the truth and fairness of the Board's financial statements and on the regularity of transactions.	Financial management Efficient government

2.4   Audit Reporting

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of governance, performance and finance. The action plan in section 6 details all of the recommendations we have made during the year, along with management's responses.

3. GOVERNANCE

3.1 Governance Framework

NHS QIS recognises the importance of having a robust and effective governance framework in place. There have been significant changes to NHS QIS structure since its inception, including the incorporation of the Scottish Health Council and the Scottish Intercollegiate Guidance Network. NHS QIS has had to undertake work to ensure that its governance framework incorporates these changes and remains able to operate effectively.

3.1.1 Chair and Non-Executive Directors

The Board's independent chairperson and non-executive directors play a key role in the governance framework, seeking to contribute to the organisation's strategic approach, scrutinise performance and ensure that effective management arrangements and an effective executive management team is in place.

During 2005/06 NHS QIS has experienced significant turnover in non-executive appointments, including:

- the chair demitted office February 2006;
- retiral of three non-executive members;
- appointment of an interim chair; and
- appointment of six new non-executive members.

In addition the appointment process for a new chair remains ongoing.

Whilst this is an opportunity to welcome new skills and a fresh outlook to the Board, the organisation must ensure that continuity and effective scrutiny is maintained. This can be achieved through effective induction and on-going training arrangements for all new Board members. We recommend that a comprehensive programme is put in place for all new board appointments.

3.1.2 Audit Committee

In our 2004/05 Annual Report we reported that, due to a change in board appointments, NHS QIS no longer had a non-executive member with recent and relevant financial expertise. We also identified the next round of Scottish Executive appointments during 2005/06 as a potential opportunity to address this issue.

The Smith Report on Audit Committees recommends that:

"At least one member of the audit committee should have significant, recent and relevant financial expertise. It is highly desirable for this member to have a professional qualification from one of the professional accountancy bodies."

Despite representations from NHS Quality Improvement Scotland, no member with financial expertise as defined by the Smith Report has been appointed by the Scottish Executive. We consider this to be a weakness in the Board's governance framework.

In the absence of such a member we recommend that the Board offer existing non-executive members financial training to ensure they are able to scrutinise effectively the Board's financial position. In addition the Board may wish to consider co-opting an individual with the relevant qualifications and expertise to the audit committee.

3.1.3 Scottish Health Council

The year to 31 March 2006 was the first period in which the Scottish Health Council (SHC) operated as a sub-committee of the NHS QIS Board. In our 2004/05 Annual Audit report we commented on the need for the Board to implement appropriate governance arrangements to allow the SHC to operate with the degree of independence required by ministers, whilst remaining compliant with internal NHS QIS systems of accountability and control.

We are pleased to report that a letter of understanding has been agreed between the NHS QIS board and SHC. This letter clarifies the roles and responsibilities of both parties. A letter has also been received from the SEHD confirming that the SHC is accountable to the SEHD for its work programme. However further work is still required to strengthen governance arrangements in this area. In particular we noted that whilst minutes of the SHC are presented for information to the board of NHS QIS they are not required to be formally approved. This is inconsistent with the treatment of other committees of the board.

We believe that an effective reporting mechanism should be established to ensure that the Board is able to discharge fully its governance role.

Internal audit is in the process of conducting a review of this area, the results of which will be published in the near future. We recommend that following the finalisation of this report the Board reviews the governance arrangements relating to SHC's role within NHS QIS.

3.2 Clinical Governance

The Board did not operate a clinical governance sub-committee during 2005/06. The organisation is however in the process of examining the need for such a committee given the nature of its activities. Following the decision of the Board in April 2006 a clinical governance and quality assurance committee will be established during 2006/07.

3.3 Staff Governance

The NHS Reform (Scotland) Act 2004 makes it a statutory requirement for NHS employers to have in place arrangements for good governance of staff. Failure to comply with this duty can attract the powers of intervention contained in the NHS (Scotland) Act 1978. The staff governance framework means that boards are equally accountable for how they behave as employers in addition to their existing accountability for finance and clinical matters. The aim of this standard is to improve the way staff are treated in NHSScotland, to be clear on what staff should expect wherever they are in NHSScotland, and to improve accountability for making this happen.

3.3.1 Pay Modernisation

NHS QIS is still analysing the full implications for the Board resulting from Agenda for Change and Pay Modernisation. As the work of NHS QIS is not viewed under the criteria for Agenda for Change to be front-line service delivery the Board expects that an element of staff will have their pay scale protected. This may lead to a number of staff seeking alternative employment or not seeking to relocate (see 4.3). NHS QIS has now completed the process of matching all staff and roles to Agenda for Change pay scales. The Board anticipate that the majority of posts will be fully assimilated by August 2006 with the first payments made through payroll in August 2006. Where payable, any back pay element will be paid several months later.. As a result of this work QIS has been able to establish that the cost of Agenda for Change for 2005/6 is £133,000. At 31 March 2006 an accrual of £181,000 has been included within the accounts.

3.3.2 Consultant Vacancies

NHS QIS employs one consultant. Internal audit undertook a full review of the implementation of the consultants' contract in respect of this case and reported their findings to the Board in February 2006.

As a result of having only one consultant a Local Negotiating Committee was not set up and negotiations took place between the consultant and their line manager. The proposed new salary and back pay were agreed and a job plan was signed by the consultant and on behalf of NHS QIS by the Chief Executive in August 2004.

The internal audit report concluded that the process undertaken by NHS QIS for implementing the consultant's contract did not raise any issues that should be reported to senior management or the Board.

3.3.3   Equal Pay Claims

Equal pay is a significant issue for all public sector bodies. Although the power to legislate about equal pay is reserved to the Westminster Parliament the Scottish Executive is working in partnership with a range of organisations to deliver on its commitment to deliver equal pay as outlined in the Modernising Government Agenda. As part of the Modernising Government Agenda, all public sector bodies are conducting equal gender pay reviews.

To date, NHS Quality Improvement Scotland has not received any claims under the Equal Pay legislation. However, experience of other public sector bodies indicates that any claims upheld may result in significant additional costs to the organisation.

3.4   Corporate Governance

NHS Quality Improvement Scotland has a responsibility to:

- develop and implement systems of internal control and at least annually to conduct a review of the effectiveness of the internal control systems;
- establish arrangements to prevent and detect fraud and irregularity;
- ensure its affairs are managed in accordance with proper standards of conduct; and
- conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

As the Board's appointed auditor we are required to review and report on the Board's corporate governance arrangements. The results of our audit work indicated that the Board's corporate governance arrangements are satisfactory.

3.4.1   Statement of Internal Control

The Board reports on the operation of its internal control framework in the annual Statement of Internal Control (SIC) published in the financial statements. This is signed by the Chief Executive as accountable officer.

Internal audit conducted a review of the Board's internal control arrangements in 2005/06 and concluded that the organisation had adequate arrangements in place. The report identified three issues which have been included as future actions in the 2005/06 SIC. These are:

- the need for a clinical governance committee to be added to the NHS QIS governance framework should be examined;
- a co-ordinating mechanism for information governance within NHS QIS should be created.; and
- policies and procedures should be impact assessed in relation to equality and diversity issues.

Our audit opinion on the SIC is covered by our auditors' report within the financial statements and is unqualified.

3.4.2   Internal Audit

Where possible we have placed reliance on the work of internal audit. This followed a review of the internal audit service provided by PricewaterhouseCoopers. The review was performed in accordance with the Code of Audit Practice and International Standard on Auditing 610: Considering the Work of Internal Audit.

To avoid duplication of effort and ensure an efficient audit process, we have made use of the work of internal audit in the following areas:

- Consultants' contract
- Financial and performance reporting
- Risk management and business continuity

In our opinion the internal audit service provided to NHS QIS during 2005/06 complied with the NHSScotland Internal Audit Standards.

3.4.3   Risk Management

The Turnbull report, Internal Control: Guidance for Directors on the Combined Code, states that a sound system of internal control depends on a thorough and regular evaluation of the risks faced by the organisation. NHS Quality Improvement Scotland is the body responsible for the development of risk management standards in NHSScotland. As such it is essential that the Board demonstrates best practice in this area.

Internal audit conducted a comprehensive review of risk management arrangements during 2005/06 concluding that the arrangements in place were satisfactory. The following examples of best practice were identified:

- regular reviews of the strategic risk register by members of senior management;
- delegation of actions relating to specific risks to members of management;
- consideration at a detailed level of the various risks associated with the relocation to Glasgow; and
- creation of an operational risk assessment form to help staff identify and manage risks.

This report also identified the following recommendations for further improvement to risk management arrangements:

- the need to review, update and communicate the risk strategy to all staff;
- the updating of the risk register to include a more formal assessment of the impact of specific risks and the extent to which controls in place mitigate the identified risk; and
- the incorporation of Australia/New Zealand risk management standards into the Board's risk strategy.

Risk Scoring

Risk scoring can be used effectively to quantify the potential impact and likelihood of each identified risk and the level to which actions implemented to control the risk manage this impact. This is often referred to as the gross and net risk assessment.

Gross risk is an assessment of the potential impact and likelihood of a risk if it were to remain uncontrolled. Net risk is an assessment of the potential impact and likelihood of a risk following the implementation and maintenance of identified controls. This concept is useful to an organisation when attempting to prioritise risks contained on the risk register and can be used as a tool to focus management attention on the key areas of risk.

We recommend that the Board consider the integration of the gross and net risk system into their existing arrangements.

3.4.4   Fraud, Irregularity and Corruption

To ensure the integrity of public funds, it is the Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity, including:

- developing, promoting and monitoring compliance with standing orders and standing financial instructions;
- implementing strategies to prevent and detect fraud and other irregularity; and
- receiving and investigating allegations of breaches of proper standards.

We plan our work to provide a reasonable expectation so detecting misstatements in the financial statements resulting from fraud or irregularity. In particular we focus on specific areas of high risk of potential fraud and irregularity and review the control arrangements in place in these areas.

We are pleased to report that we have identified no issues of concern with regard to the arrangements in place for the prevention and detection of fraud and irregularity.

3.4.5   Standards of Conduct, Integrity and Openness

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the Scottish Executive Health Department.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, standing financial instructions and schemes of delegation and complying with national and local codes of conduct. We also considered controls over tendering and awarding contracts, registers of interests and disposal of assets.

We are pleased to report that our audit has identified no issues of concern in relation to standards of conduct, integrity and openness. The Board approved a revised scheme of delegation, standing orders and standing financial instructions during the year.

3.4.6   Communications Strategy

An internal communications audit took place in June 2005. The audit identified that whilst NHS QIS has a number of individual small communication strategies in place, such as a data protection strategy and Freedom of Information strategy there is no overall communications strategy. A draft communications strategy is currently being prepared and reviewed by NHS QIS officers, although no formal date has been set for the completion of this strategy. The audit also identified that there was a need for any overall communications strategy to outline arrangements for communicating issues to staff.

3.5   Disaster Recovery and Business Continuity Planning

In our 2004/05 annual report we reported that the Board had not developed a corporate disaster recovery and business continuity plan but that plans were in place to develop this area in early 2005/06. We are pleased to report that the Board has developed an NHS QIS Business Continuity Strategy.

Internal audit conducted a review of these arrangements during 2005/06 concluding that they were satisfactory. However the following areas for improvement were identified:

- testing of continuity plans;
- development of procedures for regular review and maintenance of the plan; and
- establishment of a formal process to link risk management and business continuity activities.

We are pleased to note that the Board is in the process of implementing these recommendations.

3.6   Good Governance Standard for Public Services

In January 2005 the Independent Commission on Good Governance in Public Services produced the "Good Governance Standard for Public Services" (the Standard). Intended for use by all public services, the Standard builds upon the Nolan Principles by setting out six core principles of good governance. The Standard is not compulsory but is intended as a good practice guide.

A key aspect of the Standard is that public bodies will provide information on their governance arrangements to the public. This allows their stakeholders to understand, and perhaps challenge, these arrangements. One of the main routes for providing this information is through websites. As part of our 2005/06 audit we examined the Board's website as one method of assessing the level of information on governance arrangements that NHS QIS made available to the public and other stakeholders.

It should be noted that our audit provides a high level view of the Board's performance against one key aspect of the good governance guidelines. We understand the information contained on the NHS QIS website is regularly reviewed and we strongly recommend that the Board carry out any future assessment in accordance with the recommendations made by the Independent Commission on Good Governance and ensure that they are applying the six principles of good governance. This assessment should incorporate feedback from a representative sample of stakeholders. The results should be open to the public and, where appropriate, should form the basis of an action plan for improvement.

The results of our assessment are provided below and show the level of governance information that is available to the public via the Board's website. Our assessment can also be used as a measure of the Board's openness and responsiveness to the public and their service users.

Core Principle 1	Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.

The function of governance is to ensure that an organisation or partnership fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an effective, efficient and ethical manner. (The Good Governance Standard for Public Services)

The priorities, outputs and approach of NHS QIS are identified in the five-year Corporate Plan. This plan outlines the Board's objectives and plans across national and local priority areas. It also provides information as to how the public can measure the impact of the Board's activity. We are pleased to note that this document, alongside an annual business plan, is available on the Board's website.

Each year NHS QIS produces an Annual Report detailing the Board's performance across a number of key areas. This document is designed to be the key tool used by stakeholders to assess the Boards performance, in partnership with the Board's Financial Statements. We noted that this information is available to stakeholders via the Publications section of the Board's website and that it contains the plain English logo.

Detailed performance information is presented to the NHS Board on a monthly basis, covering all key aspects of the Boards performance. Stakeholders have access to this information through the Board's website, which also contains a key achievements section detailing performance outcomes for the previous year. However, unless a stakeholder knows that the performance information can be found in the Board papers, it may not be easy to locate. The Board may wish to consider making this performance information easier to find by including a link to the Board papers in a more prominent area of the website.

Core Principle 2	Good governance means performing effectively in clearly defined functions and roles

Good governance requires all concerned to be clear about the functions of governance and their own roles and responsibilities and those of others, and to behave in ways that are consistent with those roles. (The Good Governance Standard for Public Services)

The Board's website identifies the Board members and Executive Team members and includes information about the appointment of these members. However, the Standard identifies as good practice the publication of job descriptions for the Chair, Deputy Chair and Chief Executive to ensure that the public and other service users are aware of the roles and responsibilities within the Board. We noted that this information is not made available to NHS QIS stakeholders via the website and we would therefore encourage the Board to consider making this available.

Core Principle 3	Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour

A hallmark of good governance is the development of shared values, which become part of the organisation's culture, underpinning the policy and behaviour throughout the organisation, from the governing body to all staff. These are in addition to compliance with legal requirements on, for example, equal opportunities and anti-discrimination. (The Good Governance Standard for Public Services)

The Standard views the seven principles of public life, identified by the Nolan Committee, as the foundations upon which good governance should be built. It also confirms that public bodies should make clear the standards of behaviour that it expects from Board members and staff.

The values of NHS QIS are contained in the Board's Corporate Plan and detailed guidance is available to staff in the form of codes of conduct.

Core Principle 4	Good governance means taking informed, transparent decisions and managing risk

Decision making in governance is complex and challenging. It must further the organisation's purpose and strategic direction and be robust in the medium and longer terms. To make such decisions, governors must be well informed.

Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective. (The Good Governance Standard for Public Services)

A register of interests is maintained for Board members and senior staff to ensure the Board and others are aware of real or perceived conflicts of interest and facilitate the exclusion of people with personal interest in influencing the decisions or taking part in that decision. This document is available on the Board's website.

The meetings of the Board are open to the public. The times and venues of forthcoming meetings are provided on the Board's website. Agenda papers for future meetings and minutes of past meetings are also available on the website.

The standard also highlights the importance of risk management in the delivery of public services. We have reviewed the Boards risk management arrangements in section 3.4.3 of this report. As the Board has published copies of its annual report or annual accounts via the website, stakeholders are able to view an assessment of performance or effectiveness of internal controls. These are available in the Directors Report or Operating and Financial Review and Statement of Internal Control contained within the financial statements.

4. PERFORMANCE

NHS QIS has undertaken an extensive review programme of its service delivery and functions. This process has included a review of the Board's best practice statements, two reviews of its performance assessment procedures, a review of its development standards, a review of its evidence notes, and a review of its health technology assessments. NHS QIS is committed to reviewing its service performance and delivering continuous improvement.

Three years ago NHS QIS did not have a corporate plan, a business plan or delivery plan. The organisation now has a corporate plan and a delivery plan both of which have been approved by the NHS QIS Board. NHS QIS has also implemented a Quality Management System (QMS) that provides live data access for managers.

4.1   Performance Management

Progress reports on the NHS QIS work programme are presented at each board meeting against agreed timescales. Projects that have fallen behind their timescales are highlighted and challenged.

The annual Accountability Review provides the Scottish Executive Health Department (SEHD) with an opportunity to review the performance of NHS QIS, including the Board's performance management arrangements. We note, however, that no formal Performance Assessment Framework indicators have yet been developed and agreed with the SEHD as an objective and systematic means of assessing the Board's performance. However the delivery plan that has been submitted to the SEHD will be the mechanism for measuring NHS QIS performance during 2006/07.

Given its role as a special health board, NHS QIS has recognised the difficulties of effectively measuring the added value its work adds to external bodies and the effectiveness of its work. To address this issue NHS QIS has commissioned an external body to undertake a one year exercise to gather empirical evidence of the effectiveness and benefits delivered by the organisation. NHS QIS aims to use this work to develop future strategies and effectively monitor and assess performance and delivery. Through the findings of the external review of performance NHS QIS hopes to be able to effectively set targets and monitor the performance and added value of its work.

4.2   Service Sustainability

At the time of our review a key risk relating to the sustainability of NHS QIS was the potential relocation required by Ministers (see section 4.3 below). Staff surveys have highlighted that a large proportion of staff would leave if they had to relocate. A substantial risk to service delivery therefore exists if NHS QIS is unable to maintain the knowledge and expertise built up by the current staff.

As stated above NHS QIS has a five-year corporate plan (2005-2010) in place. The corporate plan builds upon the organisation's strategic framework and has been submitted for Ministerial approval to ensure that it fits with the priorities of the SEHD. Where possible NHS QIS is being urged to work with other inspectorates to ensure a joined up approach to reviews.

4.3   Relocation

On 28 June 2005, it was announced that NHS QIS would be relocated to Glasgow as part of the Scottish Executive policy on dispersal of government jobs. This decision was taken after a period of almost two years during which a number of relocation options were considered. The Ministerial announcement instructed NHS QIS to co-locate with NHS Health Scotland in east Glasgow.

The Board have identified additional costs arising from the relocation of approximately £6,000,000. These costs consist of expenditure associated with:

- the extra resource required to plan, manage and implement the relocation;

- early retirement or voluntary redundancy payments to staff unable to move to Glasgow who are unable to be redeployed within the NHS;
- excess travel allowances payable to staff for any additional travel costs incurred;
- removal costs payable to staff who chose to relocate their home as a result of the move;
- employee support and training;
- temporary staff to fill vacancies created by the relocation; and
- advertising and recruitment of new staff to fill vacancies created by relocation.

Under accounting standards the Board are required to provide for any costs which are likely to be incurred in future as a result of actions during any financial period. As at 31 March 2006 the Board have provided a total of £317,000 to cover the anticipated costs of early retirement and voluntary redundancy associated with the relocation. We have audited this provision and can confirm that it is fairly stated.

This provision recognises an estimated potential cost of £1,700,000 in this area, discounted due to:

- results of the management survey indicating that 36% of Edinburgh based staff will accept voluntary redundancy rather than relocate to Glasgow;
- uncertainty over the uptake of early retirement packages; and
- an assessment of staff members who may leave the organisation prior to the relocation based on previous staff turnover rates.

The provision does not indicate the full level of costs which may be incurred by the Board as a result of the relocation. It is an estimate of potential costs based on the information currently available. The level of the provision will require to be reviewed at least annually and more frequently as additional information becomes available, for example the results of staff "one-to-one" interviews. This process will ensure that, over time, the provision included in the financial statements will become more accurate.

In addition accounting standards allow organisations to recognise future funding to reduce the impact of the provision on the financial period. The ability to recognise this funding is based on confirmation that funding will be provided. No certainty over the value of the funding to be provided has been given. It is essential that NHS QIS pursues the Scottish Executive for written confirmation of any future funding associated with the relocation project.

The NHS QIS outline business case for the proposed relocation has been prepared in line with the principles of Best Value and the review of location options has also sought to ensure the delivery of Best Value. Cost has not been used by NHS QIS as the sole driver in assessing potential property options.

The full implications of relocation and the potential impact this will have on service sustainability are not yet known. NHS QIS will review its service sustainability plans when the final relocation decisions have been made. Once the full details of relocation are known individual staff meetings will take place. Alternative options can then be identified for staff wishing not to relocate and recruitment arrangements put in place for these posts. NHS QIS has been keen to ensure that the site for relocation meets sustainable development criteria and that its preferred relocation site can be accessed by public transportation. .

There are two key issues which result from the relocation of NHS QIS. These are:

1. demonstrating the delivery of Value For Money (VFM); and
2. the potential impact of delays on the process.

The decision to relocate was made by Ministerial instruction and NHS QIS is therefore required to deliver the best value for money option within the terms of this instruction. As a result of this Ministerial instruction the only options assessed by NHS QIS related to relocation in the eastern half of Glasgow. It is unclear whether the preferred option represents the best value for money for NHS QIS. Whilst the preferred option represents value for money in terms of the other alternatives examined, no alternatives outside the east of Glasgow were considered.

There have been delays in the relocation process, with most notably a delay within the SEHD in deciding and committing to the content of the outline business case. The preferred relocation site is still on the market and there is the potential risk that this site could be lost. If this were to happen NHS QIS would therefore be forced to relocate to a less economic option.

The outline business case has been taken before the Scottish Executive's Capital Investment Group and is currently being reviewed by Ministers. The original timescale identified for the NHS QIS relocation did not contain scope for delays in the process. Concerns therefore exist that the impact of a slippage in the timescale may impact on the original costings included within the outline business case.

4.4   Joint Working

NHS QIS has memoranda of understanding with five public sector bodies and is in discussions with other bodies to develop memoranda of understanding. Through these memoranda NHS QIS is working to ensure that work streams do not overlap with other public sector bodies and duplication is avoided.

NHS QIS recognises that while not directly involved in Joint Future or community health partnerships it has a role to play in delivering services to support the health boards in these areas and must assess how to meet the needs and requirements of these bodies. To achieve this aim NHS QIS has commissioned a one year review of impact of its work.

Although regional planning as such is not applicable to the work of QIS, the organisation is increasingly working with regional planning groups where appropriate. QIS works directly with all NHS health boards in the application and assessment of their standards, project work and service delivery advice and consultation.

NHS QIS is also committed to working to support other NHS Boards. Joint working is undertaken with NHS Boards and projects and workstreams are developed based on problems identified. NHS QIS has developed a REAL toolkit (Report, Evaluate, Act and Learn), to collate incidents and other problems that arise in NHSScotland and uses these findings to share learning with the Boards and to guide the development of its projects and services.

4.5   Workforce Management

A workforce plan is being developed by NHS QIS. Senior management have stated that the plan is in its early stages and NHS QIS has recently submitted a draft workforce plan to the Scottish Executive Health Department.

Due to the size of the organisation NHS QIS does not propose to create a specific workforce development team. The nature and skills mix of NHS QIS mean that the investment in such a team would not demonstrate value for money or an effective use of resources. As a special health board there are a number of initiatives such as modernising medical careers which NHS QIS is not required to meet

Key targets for performance have been identified for each department, heads of department and individual staff members. Regular performance reports are provided to the NHS QIS Board and Executive Team. Officers report on an exceptions basis to the Board and the Executive Team ensures that the key issues are brought to their attention. The performance development review arrangements

for NHS QIS staff which outline targets and workstreams in line with stated NHS QIS aims and departmental objectives are an area of very good practice.

4.6   Information Management and Technology

NHS QIS has sought to ensure that the Information Management and Technology (IM&T) needs and requirements of all divisions and projects are recognised and delivered through the IM&T department. Due to the nature of NHS QIS's work there a number of specific projects which require IM&T support. These projects receive individual focussed IM&T support from IM&T staff assigned to each project. An NHS QIS Information Management and Technology Strategy was approved by the IM&T Review and Steering Group in March 2005. This Strategy covers the period until 2009.

Target deadlines were in place to install four Scottish Health Council sites into the NHS QIS IM&T network by the end of March 2006. The target date was not met. As a result data cannot be disseminated throughout the network as intended and staff may not be able to access vital information.

4.6.1   Information Technology Review

In December 2004, a software virus infected the NHS QIS computer systems. Although no data was lost, the Board lost four working days at its Edinburgh premises and eight working days at its Glasgow offices. An internal investigation confirmed that the Board had inadequate IT security arrangements in place. Significant work has now been undertaken to ensure that NHS QIS has minimised the risk and impact of similar future software problems.

Given the high level of reliance that the Board places upon computer and other information technology systems, it is essential that IT security, business continuity and disaster recovery plans are in place. Following the appointment of the Head of IT an NHS QIS Information Management and Technology Strategy was approved by the IM&T Review and Steering Group in March 2005. This Strategy covers the period until 2009.   We are satisfied that although the issues of IT security arrangements, business continuity and disaster recovery remain significant, the Board is in the process of taking measures to fully address them.

5. FINANCE

It is the responsibility of NHS QIS to conduct its financial affairs in a proper manner. As part of our audit we are required to consider the financial standing of the Board, including arrangements for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to control the organisation's operations and use of resources.

5.1 Annual Accounts and Audit Timetable

The deadline for submission of the audited NHS Board accounts to the SEHD is 30 June 2006, one month earlier than in previous periods. We are pleased to report that the accounts were approved by the Board of NHS Quality Improvement Scotland and will be submitted to the SEHD and Auditor General for Scotland prior to 30 June 2006.

We identified no material errors during our audit. Adjustments to the financial statements arising from the audit related mainly to changes in disclosure and presentation. We agreed all adjustments with the Head of Finance.

We are grateful to the Head of Finance and her staff for submitting draft accounts and supporting papers within the agreed deadlines.

5.2 Financial Targets

Health Boards are set three budget levels by the SEHD:

Target	Description
Revenue Resource Limit	Stay within the allocated revenue limit, reflecting spend on ongoing health services.
Capital Resource Limit	Stay within the allocation capital limit, reflecting spend on new capital investment.
Cash Requirement	Stay within a cash management requirement which is a financing requirement to fund the cash consequences of the ongoing operations and net capital investment.

The Revenue Resource Limit and Capital Resource Limit are both financial targets for financial reporting purposes.

We are pleased to note that NHS QIS met both of its financial targets for the financial year 2005/06 and also stayed within its budgeted cash requirement as set out below.
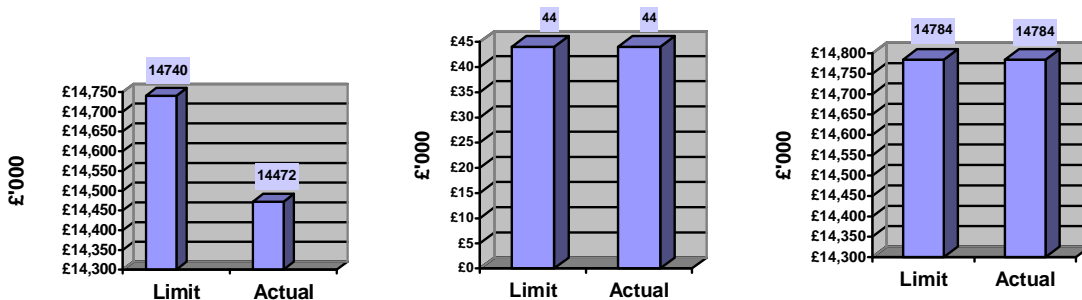

Figure 1 – Performance against Revenue Resource Limit	Figure 2 – Performance against Capital Resource Limit	Figure 3 – Performance against Cash Requirement

5.3 Financial Performance

NHS QIS achieved a saving of £268,000 against its RRL in the year to 31 March 2006.

In previous years we have commented on the Board's failure to spend all of its annual allocation from the SEHD and the fact that this indicated that the Board was not yet operating at full capacity. The accumulated saving reported by the Board in 2005/06 must, however, be considered in the context of the savings carried forward from previous periods and the project based nature of the Board's expenditure.

5.3.1 Accumulated Savings

The Board has made historical savings against its RRL in previous years. Following approval from the SEHD these savings have been carried forward to fund future activity. This has resulted in increases to subsequent years RRL. In the past three financial years approximately £500,000 of the Board's annual allocation has been carried forward from the previous financial period. This is illustrated in the figure below.
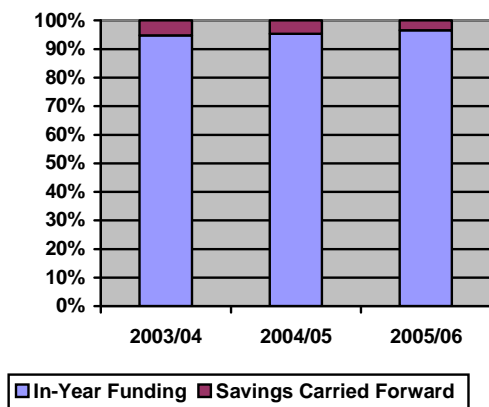

Figure 4 – Composition of annual RRL funding

This additional funding is now being committed against expenditure incurred resulting in in-year deficits being reported in 2004/05 and 2005/06. The Board's financial projections indicate that accumulated savings will continue to be committed as appropriate in line with current and future service commitments.

5.3.2 Project Based Expenditure

A significant portion of the Boards activity is project based. The Board receives a funding allocation for each project, phased over its life-cycle. A degree of flexibility is inherent in these projects therefore it is unlikely that actual funding received will match expenditure in any single financial period. This will result in savings or excesses against individual project budgets at the financial year-end.

Savings achieved as a result of slippage in project activity from one financial period to the next do not necessarily indicate a weakness in the Board's financial planning arrangements. This is also the case for in-year excess positions as these may merely indicate past savings being allocated to current activity. However, as the Board is limited as to the value of savings which can be carried forward to future financial periods and accumulated savings are finite, it must ensure that robust financial planning and project reporting arrangements are in place. This will ensure excess funding can be ring-fenced for future use or redirected to other priorities as appropriate.

5.3.3 Capital Resource Limit

We are pleased to note that the Board met its capital resource limit at 31 March 2006.

5.4 NHS QIS Financial Plan

NHS QIS has prepared a five year financial plan. This is reported in the Board's five year Corporate Plan. The key aspects of the Board's financial plan and its performance against internal 2005/06 objective are highlighted below.

Actual Net Outturn Against Planned Outturn 2005/06

	2005/06 Planned			2005/06 Actual		
	Recurring £'000	Non-Recurring £'000	Total £'000	Recurring £'000	Non-Recurring £'000	Total £'000
Funding						
Baseline funding	11,997		**11,997**	11997		**11997**
Other funding	2,672		**2,672**	2672		**2672**
Carry forward		320	**320**		115	**115**
TOTAL FUNDING	**14,669**	**320**		**14669**	**115**	**14784**
Expenditure						
Payroll	8,299			7300		**7300**
Non-payroll costs	2,678			4300		**4300**
General project costs	3,862			2916		**2916**
TOTAL EXPENDITURE	**14,839**	**0**		**14516**	**0**	**14516**
NET OUTTURN	**(170)**	**320**	**150**	**153**	**115**	**268**

Planned Outturn 2006/07 and 2007/08

	2006/07 Planned			2007/08 Planned		
	Recurring £'000	Non-Recurring £'000	Total £'000	Recurring £'000	Non-Recurring £'000	Total £'000
Funding						
Baseline funding	12,429		**12,429**	12,876		**12,876**
Other funding	2,768		**2,768**	2,868		**2,868**
Carry forward		150	**150**		44	**44**
TOTAL FUNDING	**15,197**	**150**	**15,347**	**15,744**	**44**	**15,788**
Expenditure						
Payroll	8,567		**8,567**	8,843		**8,843**
Non-payroll costs	2,758		**2,758**	2,841		**2841**
General project costs	3,978		**3,978**	4,097		**4,097**
TOTAL EXPENDITURE	**15,303**	**Nil**	**15,303**	**15,781**	**Nil**	**15,781**
NET OUTTURN	**(106)**	**150**	**44**	**(37)**	**44**	**7**

The Board's financial plans indicate that NHS QIS will remain within its revenue allocation over the financial periods to 31 March 2008.

5.4.1 Cost Pressures

The above financial plan is subject to a number of cost pressures both identified and currently unknown. In particular, the impact of the relocation of the NHS QIS to Glasgow cannot yet be fully quantified. These may impact significantly on the Board's ability to deliver fully on future activity targets if sufficient additional funding is not provided. Potential costs associated with the relocation are discussed in section 4.3 above. The Board must ensure that financial plans are reviewed to ensure that financial pressures are highlighted at the earliest possible date.

5.5   Financial Planning, Budgetary Control and Financial Reporting

As auditors of NHS QIS we have a responsibility to review the financial planning, budgetary control and reporting arrangements in place within the Board. Achievement of financial targets alone does not indicate that satisfactory measures are in place. Policies, processes and procedures should be in place to allow effective financial stewardship and the achievement of efficient, effective and economic use of resources over a sustained period of time.

We are pleased to report that we consider the Board's financial planning, budgetary control and reporting arrangements to be satisfactory.

5.5.1   Areas of Good Practice

Our opinion on the Board's financial planning, budgetary control and financial reporting arrangements is consistent with the results of internal audit's assessment of the financial reporting and performance monitoring framework. This identified the following areas of good practice:

* the Finance Report submitted to Board is timely, clear and appropriate to the needs of the Board members;
* all users of financial information have had sufficient training in understanding the content of the information to enable them to interpret the data. They have also received sufficient training to enable them to enquire into data on the Financial Management System;
* there is an agreed timetable for the reporting of financial information which is consistently complied with; and
* users find the information clear, sufficient and appropriate to their needs

5.5.2   Scottish Health Council

As at 1 April 2005 NHS Quality Improvement Scotland assumed responsibility for the financial budget of the Scottish Health Council. This added £2,300,000 to the Board's annual allocation, accounting for 17% of the Board's overall allocation. As Accountable Officer for NHS Quality Improvement Scotland, and therefore the Scottish Health Council, the Chief Executive must ensure that consistent standards of financial planning, budgetary control and financial reporting are applied across the organisation including SHC. Our audit work has highlighted no concerns in this area.

5.6   Efficient Government

The Efficient Government initiative is a five year government 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 on individual organisations, with the intention of releasing efficiencies as a result of joined up working in purchasing, accommodation and 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. The Efficient Government Plan sets targets to achieve £745,000,000 (rising to £900,000,000) of cash-releasing savings and £300,000,000 (rising to £600,000,000) of time releasing savings by 2007-08.

An Efficient Government survey was undertaken by Audit Scotland on most health boards in 2005/06. The results of this survey will be published in the next few months. Due to the size of NHS QIS the

Board's progress on making Efficient Government savings was not reviewed. We would however urge the Board to review the Audit Scotland report for any key measures or recommendations.

6. ACTION PLAN

6.1   Introduction

The following action plans detail the control weaknesses and opportunities for improvement that we have identified during our 2005/06 audit.

It should be noted that the weaknesses identified are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

6.2   Priority rating

The priority rating is intended to assist the Board in assessing the significance of the issues raised and prioritising the action required to address them. The rating structure is summarised as follows:

Priority 1   High risk, material observations requiring immediate
                    action;

Priority 2   Medium risk, significant observations requiring
                    reasonably urgent action;

Priority 3   Low risk, minor observations which require to be
                    brought to the attention of management.

6.3   Key Issues Identified in 2005/06

Title	Issue Identified	Risk and Recommendation	Management Comments
Relocation Para Ref 4.3 and 5.4	No certainty over the value of the funding to be provided has been given. Additional cost pressures are likely to be experienced as a result of the relocation. **Priority 1**	It is essential that NHS QIS pursue the Scottish Executive for written confirmation of any future funding associated with the relocation project. The Board must ensure that financial plans are reviewed to ensure that additional financial pressures are highlighted at the earliest possible date.	Agreed Action will be taken to obtain written confirmation on funding available for relocation. Responsible Officer: Chief Executive Date 0ctober 2006 Additional financial pressures will be highlighted in the FBC Responsible Officer: Head of Finance Date FBC Submission
SHC Reporting Arrangements Para Ref 3.1.3	It is essential that an effective reporting mechanism is established to ensure that the board of NHS QIS is able to fully undertake its governance responsibilities in relation to SHC. **Priority 2**	We recommend that following the finalisation of the internal audit report the Board reviews the governance arrangements relating to SHC's role within NHS Quality Improvement Scotland. In particular we recommend that formal reports on the activity of SHC are provided to the NHS QIS board.	Audit committee will consider the Internal Audit review in June 2006 Responsible Officer: Chief Executive Date June 2006

Title	Issue Identified	Risk and Recommendation	Management Comments
Financial Training for Board Members Para Ref 3.1.2	There is no member of the Audit Committee with relevant financial experience. **Priority 1**	The Board may wish to offer existing Non-Executive members financial training. In addition the Board may wish to consider co-opting an individual with the relevant qualifications and expertise to the audit committee.	Agreed to offer training in Autumn 2006 Responsible Officer: Head of Finance Date October 2006 The Audit committee will consider co-opting an individual with relevant finance expertise Responsible Officer: Audit Chair Date October 2006
Training for Board Appointments Para Ref 3.1.1	The Board must ensure continuity and effective scrutiny are maintained through transitional phases such as changes to Board appointments. **Priority 2**	We recommend that a comprehensive programme is put in place for all new board appointments.	Agreed Responsible Officers: Director of Planning and Resource Management/ head of Corporate Secretariat Date October 2006

Title	Issue Identified	Risk and Recommendation	Management Comments
Financial Planning Para Ref 5.4	The Board is limited as to the value of savings which can be carried forward to future financial periods and accumulated savings are finite. **Priority 2**	The Board must ensure that robust financial planning and project reporting arrangements are in place. This will ensure excess funding can be ring-fenced for future use or redirected to other priorities as appropriate.	The Board is informed of current and future financial plans. Management ensure that financial resources are used efficiently and effectively, this will continue. Responsible Officer: Head of Finance
Information Management and Technology Para Ref 4.6	The target date to install four Scottish Health Council sites into the NHS QIS IM&T network was not met. As a result data cannot be disseminated throughout the network as intended and staff may not be able to access vital information. **Priority 2**	NHS QIS must seek to ensure that these are installed and that the information can be accessed by staff.	The initial commitment was for the integration of four offices this was increased to five over the course of the year. Three offices were integrated within financial year 05/06. Work is ongoing to integrate the outstanding two offices with the hosting health board and delivery is scheduled in July and August of this financial year. Responsible Officer: Head of IT

Title	Issue Identified	Risk and Recommendation	Management Comments
Risk Management Arrangements Para Ref 3.4.3	There is scope for NHS QIS to make a number of improvements to its risk management arrangements. **Priority 2**	Further improvement to risk management arrangements can be achieved by: • the need to review, update and communicate the risk strategy to all staff; • the updating of the risk register to include a more formal assessment of the impact of specific risks and the extent to which controls in place mitigate the identified risk; and • the incorporation of Australia/New Zealand risk management standards into the Board's risk strategy.	Agreed these three actions are well underway and will be incorporated in the 2006/07 Risk register and action plan. Responsible Officer: Head of Finance Date July 2006
Service Sustainability Para Ref 4.2	The corporate plan builds upon the organisation's strategic framework and has been submitted for Ministerial approval to ensure that it fits with the priorities of the SEHD. **Priority 2**	Where possible NHS QIS should work with other inspectorates to ensure that there is a joined up approach to reviews.	This is happening at present No further action Director of Performance Assessment and Practice Development

Title	Issue Identified	Risk and Recommendation	Management Comments
Performance information on the website Para Ref 3.6	Unless a stakeholder knows that detailed performance information can be found in the Board papers, it may not be easy to locate on the website. **Priority 3**	The Board may wish to consider making this performance information easier to find by including a link to the Board papers in a more prominent area of the website.	Agreed Responsible Officer: Head of Communications Date October 2006
Publication of Job Descriptions Para Ref 3.6	It is good practice to publish the job descriptions for the Chair, Deputy Chair and Chief Executive to ensure that the public and other service users are aware of the roles and responsibilities. **Priority 3**	We would therefore encourage the Board to consider making this available.	Agreed we will publish Chair and Chief executive Job Descriptions Responsible Officer: Head of Communications Date October 2006
Risk Scoring Para Ref 3.4.3	Risk scoring can be used effectively to quantify the potential impact and likelihood of each identified risk and the level to which actions implemented to control the risk manage this impact. **Priority 3**	We recommend that the Board consider the integration of the gross and net risk system into their existing arrangements.	Agreed this will be considered in the 2006/07 risk management process. Responsible Officer: Head of Finance Date July 2006