



INFRASTRUCTURE, GOVERNMENT &  
HEALTHCARE

# Ayrshire and Arran NHS Board

Annual audit report to Ayrshire  
and Arran NHS Board and the  
Auditor General for Scotland  
2006-07

27 June 2007

AUDIT



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## **Notice: About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the Code'). This report is for the benefit of only Ayrshire & Arran NHS Board and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

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If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact David Watt, who is the engagement leader for our services to the Board, telephone 0141 300 5695, email [david.watt@kpmg.co.uk](mailto:david.watt@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to [lorraine.bennett@kpmg.co.uk](mailto:lorraine.bennett@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

# Executive summary

This report summarises our work for the 2006-07 year and our findings in relation to our audit of the financial statements, corporate governance, and performance management arrangements.

## Financial statements

On 27 June 2007 we issued an audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2007 and on the regularity of transactions reflected in those financial statements.

## Corporate governance

Management's consideration of the control environment, together with reports from the Board's committees, has not identified any significant matters having implications for the statement on internal control.

Weaknesses exist over the Board's approach to its participation in the National Fraud Initiative, including the absence a formalised approach and regular updates to the electronic records with the results of work to resolve data matches.

The Board achieved all three of its financial targets for 2006-07.

## Performance management

Following extensive public and staff engagement during the year, the review of services project progressed with the board approving the proposals on 4 October 2006. The board considered feasibility and affordability in the process, which focused on increased provision of services in the community, including creation of community casualty facilities. Management is reviewing these proposals in response to the recent announcement by the Cabinet Secretary for Health and Wellbeing, which will have an impact on plans for redesign of emergency and planned healthcare services.

There is a strong degree of partnership working with the three local Councils at operational and strategic levels, including the ongoing work of the three community health partnerships. Management is reviewing the nature and effectiveness of the Board's relationship with local authorities and the patient benefits obtained from the introduction of CHPs. Areas for improvement or weaknesses in the current structure should be linked to defined recommendations for action to ensure benefits are obtained from the work performed.

Regular performance reports are compiled, analysing performance against national and local targets for health improvement, efficiency, access and treatment. There is recognition that the Board has one of the highest delayed discharge rates in Scotland and is monitoring progress to manage the risk to achievement of national targets.

There is limited evidence to demonstrate the links between strategic and operational workforce planning and service redesign. Management need to establish and implement appropriate processes to ensure that workforce management arrangements are considered in conjunction with, rather than after, the service redesign process.

Managing implementation of the pay modernisation agenda, particularly *Agenda for Change* and the knowledge and skills framework progressed during 2006-07. This will continue into 2007-08 to secure the benefits from significant, and continued, additional investment.

# Introduction

## **Audit framework**

This was the first year of our five-year appointment as external auditors of Ayrshire and Arran NHS Board ("the Board"). This report to the Board and Auditor General for Scotland outlines our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*") the scope of the audit was to:

- provide an opinion on the Board's financial statements and, as required by relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the *Code* and any guidance issued by Audit Scotland):
  - the Board's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position
  - the Board's arrangements to achieve Best Value
  - other aspects of the Board's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the Board's audit committee.

## **Priorities and risks**

To assist in the development of a consistent approach to the audit across bodies, Audit Scotland published a *Priorities and Risks Framework* setting out seven areas for consideration. We built on this and considered the Board's processes and management arrangements in these areas in focusing our audit effort. Resulting reports were presented to the audit committee in April 2007. In addition, we identified a number of other areas for specific attention.

## **Responsibilities of the Board and its auditors**

External auditors do not act as a substitute for the Board's own responsibilities for putting in place proper arrangements to account for its stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through accountable officers, to make arrangements to secure Best Value.

## **Acknowledgement**

We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the first year of our work in the discharge of our responsibilities.

# Financial statements audit

## Audit opinion

On 27 June 2007 we issued an audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2007 and on the regularity of transactions reflected in those financial statements.

We wish to bring the following issues to your attention.

## PFI / PPP

The Ayrshire maternity unit at Crosshouse hospital, which opened in July 2006, is operated under a public finance initiative agreement for 30 years. The agreement is accounted for 'off balance sheet'. Ownership of the building will transfer to the Board, for no consideration, at the end of the contract. £210,000 has therefore been recognised in fixed assets at 31 March 2007, reflecting the proportion of the building "acquired" during 2007. The building is valued at £13.8 million on a reversionary basis. The service charge for the year was £1.8 million.

East Ayrshire community hospital is also operated under a public finance initiative agreement for 25 years from 2000. The agreement is accounted for 'on balance sheet', with a net book value at the year end of £9.3 million. The outstanding liability, net of interest, is £9.5 million. The service charge for the year was £1.6 million. The financial statements include a provision for the value of disputed service charges following a benchmarking exercise in 2005. This is based on management's estimate of the likely settlement value.

The Board currently has no major projects at an advanced stage which will be procured under PFI / PPP, but this option will be considered for significant capital projects in the future.

## Operating leases

During the year management paid £522,000 to terminate operating leases with four third-party providers of medical equipment. These had been accounted as operating leases. The payment includes the estimated residual value of assets at the end of the lease terms (ranging from September 2008 to July 2010) and the future value of the annual lease payments to that date. Continuing payments would have been £772,000, resulting in an overall saving of £250,000.

The payment to terminate the agreements has been accounted for as revenue expenditure. However, the medical equipment acquired meets the definition of capital expenditure, but has not been accounted for as a fixed asset. The impact on the financial statements is that £522,000 was charged as revenue rather than capitalised and depreciated over the remaining useful lives of the assets. We do not consider this to be material and the financial statements have not been adjusted.

## Equal pay

Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. The National Health Service in Scotland has received a number of claims for backdated pay increases, arising from this requirement.

As at 31 March 2007 the Board had received 1,475 claims and these had been referred for attention to the Central Legal Office, the Board's legal advisers. Even taking account of the work which has been undertaken in relation to *Agenda for Change*, it is still possible that these claims represent a current liability for the Board; although it is worth noting that we have not been able to obtain from the Central Legal Office any estimate of the potential liability being faced by the Board.

For 2006-07 we have accepted this position because of its stage of development and as a result of the Board including within its annual accounts a contingent liability note setting out relevant details on the matter. Nevertheless, we would have expected further details to have been available to management beyond those currently received from the Central Legal Office, including a reasonable estimate of the Board's liabilities determined in accordance with financial reporting standards. We would strongly encourage Board management, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements.

# Corporate governance

## Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the Board is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on the Board's corporate governance arrangements as they relate to:

- the Board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

## Systems of internal control

### Statement on internal control ("SIC")

The SIC for 2006-07 provides details of the processes and controls and management highlights that the organisation is committed to a process of continuous development and improvement and to developing systems in response to any relevant reviews and developments in best practice.

A report from each governance committee was submitted to the board to provide evidence to the chief executive for her consideration of the effectiveness of the systems of internal control.

### Governance arrangements and risk management

In February 2007 NHS Quality Improvement Scotland ("NHS QIS") performed a local peer review of 'clinical governance and risk management: achieving safe, effective, patient focussed care and services'. NHS QIS reported that the Board has "*a well-integrated risk management system at operational level and a single system risk management strategy has been approved. However, the corporate risk register is not seen by the Board. Well-developed emergency planning arrangements are evident in NHS Ayrshire and Arran and a well-established network with partner agencies is in place. Although the organisation does not have an overarching business continuity plan, corporate departments are in the process of writing departmental business continuity plans.*"

The key findings in relation to NHS QIS's work on governance and risk management arrangements are consistent with our planning approach and findings reported to management during the year.

### Internal audit

The approved internal audit programme for 2006-07 has been completed and the internal auditors have reported that their work did not identify any critical control weaknesses considered pervasive in their effects in the system of internal control. A number of higher rated risks were identified in theatre utilisation, performance management, absence management and information management. Accordingly,



based on the programme of work undertaken during the year, the internal auditors have given “moderate assurance” on the adequacy and effectiveness of the system of internal control.

Management do not consider that the weaknesses associated with high risks have a significant impact on the system of internal control. We agree with this assessment.

### Primary care

Family health services (“FHS”) income and payments are processed on behalf of the Board by NHS National Services Scotland (“NHS NSS”) and therefore issues of systems of control and the regularity of transactions are outwith the direct control of the Board. Transactions are completed on the basis of self-certification by the patient. Consideration in terms of payment verification therefore needs to be given, not only to the question of practice visits in relation to FHS payments, but also in relation to related charges to patients, e.g. prescription charges.

In accordance with the protocol on patient fraud, NHS Counter Fraud Service (“CFS”) provided an estimate of the level of fraud/error in respect of the Board’s FHS income. Using the latest available data, this suggests an estimated fraud/error for the 12 months to 31 December 2006 of £765,699 (2005: £896,715). This decrease is consistent with the national results. Management believe that this is not significant enough to indicate there is a material level of irregularity in respect of FHS income.

The Board’s payment verification processes involve receipt of NHS NSS practitioner services division (“PSD”) generated reports, meetings to review reports and decisions on follow up actions. In line with guidance, Board officers meet with representatives of PSD on a quarterly basis to discuss emerging issues within each of the contractor groups. An annual report on payment verification and patient exemption checking is not routinely reported to the audit committee.

The local quality outcome framework (“QOF”) pre-payment verification group considered a number of key indicators and processes during the verification exercise. In accordance with current arrangements, three practices were visited and a minimum of 80% of the achieved points were verified by agreement to patient records. Total points achieved by all practices were compared to 2005-06 and all variances greater than 10% were analysed in detail, including a visit to one of the practices concerned. All issues identified during the verification process were resolved by management.

### Internal controls

Drawing on the work of internal audit, in accordance with our plan we undertook detailed testing in relation to both entity-level and key financial controls. We identified a number of areas for enhancement, including that financial operating procedures should be included in a formal programme of regular review. Recommendations were accepted by management.

Testing of the design and operation of controls over significant risk points in terms of major financial systems confirms that, subject to the minor weaknesses reported, controls are designed appropriately and operating effectively.

### Single system working

The Board has operated a single financial ledger system since April 2004, within which there are four distinct areas based on the former NHS trust structure. A number of financial statement captions, including provisions and debtors, are prepared separately and subsequently 'consolidated'. There is a risk of error or inconsistencies in approach, accounting treatment and disclosure. Management should review financial statement preparation processes to identify areas where efficiencies can be made by assigning responsibility for specific areas on a Board-wide basis.

In addition, acute and community information management teams continue to operate independently. Internal audit reported little evidence of joint working or knowledge sharing between the teams.

## Prevention and detection of fraud and irregularity

### Fraud policy

The Board's fraud prevention policy, including a fraud response plan, is available for all staff to view on the intranet. The policy outlines the procedures to be followed to prevent and detect fraud and other irregularities. The content of the policy meets the requirements and identifies specific responsibilities for the prevention and detection of fraud. There is a designated fraud liaison officer in the finance division, to whom all suspected fraud should be reported. This member of staff is responsible for liaison with CFS.

### National Fraud Initiative

In 2006-07 the Board took part in the National Fraud Initiative ("NFI") in Scotland. The Scottish Executive Health Department and CFS have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005), but if fraud or overpayments are not identified, assurances may be taken about internal arrangements for preventing and detecting fraud.

The NFI 2006-07 results (data matches) were made available to health bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Board's involvement in NFI 2006-07 during the course of the audit.

The head of financial services is the NFI key contact and is responsible for overseeing the review and reporting of the work being performed. The head of financial services liaises with the human resources and payroll managers who are responsible for reviewing matches. Focus is directed to the matches that require to be reviewed internally.

Progress was first reported to the audit committee in April 2007 and, at that date, had not identified any significant issues requiring specific attention. However:

- the Board's approach has not been formally documented and there is no plan or policy detailing who is taking responsibility for each type of match, the planned timetable, how results will be recorded and the type of supporting evidence that will be collected;
- there is no control record detailing what matches are being reviewed, by whom, or the stage reached is being maintained; and

- while management has accessed the NFI database in recent months, they have not updated the electronic records with the results of work to resolve data matches. Only five of the Board's 1,003 data matches have been recorded electronically as resolved or being under investigation.

Management has requested guidance to develop their understanding of the NFI process, particularly in relation to how the web application operates and the expectations of what is recorded on the web application during and following the review of data matches. We are liaising with management over the timing and nature of this.

### Standards of conduct

The Board has an approved code of conduct which outlines the responsibilities of board members in fulfilling their duties, including registration and declaration of interests. Staff are currently provided with a staff code of conduct that sets out the principles and standards which staff are expected to adhere to at all times. The code of conduct is available for all staff to view on the internet.

### Financial position

The Board achieved all three of its financial targets for 2006-07.

The original 2006-07 financial plan forecast a cumulative surplus of £10.0 million. The forecast was revised to £13 million at 31 January 2007 as a result of additional revenue allocations and funds held as contingency being no longer required.

The following table summarises the significant movements during the year.

	<b>£'000</b>
2006-07 forecast cumulative outturn per the financial plan	10,000
Additional allocations from the Scottish Executive Health Department in March 2007	1,000
Contingency funding set aside to create a provision for equal pay claims	1,000
Contingency funding set aside to fund new injury benefit provisions – no new provisions arising	700
Premium 'holiday' for clinical and medical negligence	385
Other	(85)
<b>2006-07 actual outturn at 31 March 2007</b>	<b>13,000</b>

Source: Ayrshire and Arran NHS Board (May 2007)

The previous auditors reported concerns in relation to the cumulative revenue resource limit carried forward each year. The actual outturn as at 31 March 2007 was a cumulative surplus of £13 million, representing an in-year deficit (£4.4 million) and reducing the amount carried forward. A large proportion of the carry forward into 2007-08 only arose during 2006-07, demonstrating that funding is being used for the purposes identified by management and not deferred indefinitely.

The in-year deficit includes the following non-recurring expenditure items:

- £2 million accelerated depreciation on the old Ayrshire maternity unit;
- £1 million paid to Greater Glasgow and Clyde NHS Board following a review of the costing methodology; and
- £0.5 million to buy-out operating leases for medical equipment.

A four year financial plan was submitted in line with the Scottish Executive Health Department timetable in February 2007. The financial plan and 2007-08 budgets were subsequently approved by the board on 11 April 2007. The table below summarises the projected financial performance.

	<b>2006-07 (£'000)</b>	<b>2007-08 (£'000)</b>	<b>2008-09 (£'000)</b>	<b>2009-10 (£'000)</b>
In-year surplus / (deficit)	(4,405)	(3,000)	(3,000)	(2,000)
Cumulative surplus against the revenue resource limit	13,000	10,000	7,000	5,000

Source: Ayrshire and Arran NHS Board (April 2007)

The 2007-08 financial plan includes recurring investment in a number of areas, including:

- infrastructure costs, including capital charges and cross-boundary expenditure (£5.8 million);
- in-year increase in staff costs under the pay modernisation agenda (£15 million);
- cost implications of implementing the Mental Health (Care and Treatment) (Scotland) Act 2003 (£3.5 million);
- investment in primary care and chronic medicine management (£3.5 million); and
- acute patient services and clinical developments (£2.7 million).

The corporate risk register identifies a number of key financial risks and pressures, including the final outturn of assimilating all staff onto *Agenda for Change*, the impact of full implementation of the NHS tariff scheme, and the cost of GP prescribing.

The majority of the Board's cross-boundary patient activity is with Greater Glasgow & Clyde NHS Board. Prior to introduction of the NHS tariff scheme payments were made in line with service level agreements based on activity. Management has indicated that all west of Scotland NHS boards believe that this local work is more robust and accurate than the national tariffs.

During 2006-07 Greater Glasgow & Clyde NHS Board reviewed all cross-boundary activity to ensure that tertiary services were being accurately costed. This exercise identified a shortfall in payments from the Board of £1.3 million, against which management has agreed to pay £1 million. The 2007-08 financial plan reflects the increase in charges on a recurring basis.

A similar exercise is expected to be performed in 2007-08 and we understand that management do not anticipate significant changes in charges payable. Payments to Lanarkshire NHS Board are based on a service level agreement and rebasing during 2006-07 did not identify any significant differences.

Management apply national tariffs to cross-boundary activity with all other NHS boards, but has not calculated the net financial impact on the 2006-07 financial position or the 2007-08 forecast as they believe this to be insignificant due to low levels of activity. Management should monitor the cost implications of changes in national tariffs and activity levels to provide accurate information for financial planning purposes.

The underlying financial position in 2006-07 and the forecast position in 2007-08 are shown below.

	<b>2006-07</b>	<b>2007-08</b>
	<b>£'000</b>	<b>£'000</b>
Recurring income	580,509	608,761
Recurring expenditure	(585,450)	613,998
<b>Underlying recurring (deficit)</b>	<b>(4,941)</b>	<b>(5,237)</b>
Non-recurring income	27,312	16,570
Non-recurring expenditure	14,312	6,570
<i>Balance of non-recurring</i>	<i>13,000</i>	<i>10,000</i>
<b>Difference</b>	<b>8,059</b>	<b>4,763</b>
Other income sources	-	-
Non-recurring SEHD income/year-end support	-	-
Corporate savings programme	4,941	5,237
<i>Total other income</i>	<i>4,941</i>	<i>5,237</i>
<b>Financial surplus</b>	<b>13,000</b>	<b>10,000</b>

Source: Ayrshire and Arran NHS Board minimum dataset (June 2007)

Management compiled this information based on the financial statements and internal records, but is unable to accurately quantify total non-recurring expenditure during the year. While processes are in place to monitor the use of non-recurring funding to ensure that it is used only for non-recurring purposes, the use of recurring funding for non-recurring purposes is not monitored. Financial monitoring and reporting processes should be reviewed and enhanced to ensure that robust information is available to demonstrate the use of recurring and non-recurring funding and monitor the underlying financial position.

The board approved an ambitious capital plan identifying £253 million of capital expenditure over nine years, including:

- £31 million on Ayrshire Central community hospital (including £23.5 million on new buildings and facilities);
- £18.9 million on a new community hospital in Girvan; and
- £15 million on adult acute mental health and continuing care facilities at Ailsa hospital.

# Performance management

## Priorities and risks

Audit Scotland's priorities and risks framework set out seven areas for consideration during the audit, building on the work undertaken in each of these in earlier years. Consideration of these areas identified the need to carry out more work on arrangements in relation to workforce management and partnership working.

The previous external auditors, initially reported a number of significant risk areas in workforce management in September 2005. A follow-up report in May 2006 concluded that "a number of the key actions are being delivered, and that these actions are resulting in the planned outcomes". A key area where action had been taken was the roll out of the Empower human resources system. During preparation of the 2007-08 workforce plan there has been an increased focus on linking workforce requirements to service delivery, particularly in relation to changes in service provision identified in the review of services.

## Service sustainability

The Board recognised the need to change the way services are delivered to meet the anticipated needs of the population. A formal review of services was launched in 2003, led by the medical director and director of strategic planning and performance. Following a consultation process and evaluation of models of emergency and unscheduled care, a number of changes in service provision were approved by the board in October 2006 and subsequently by the Scottish Minister for Health in December 2006. These focus on increased provision of services in the community and the creation of five community casualty facilities. A subsequent update on implementing agreed actions included clarification of performance management reporting arrangements and a project implementation timetable to December 2007, including defined actions and responsible officers.

Board management has commenced development of proposals for the retention of accident and emergency services at Ayr and Crosshouse hospitals following the announcement by the Cabinet Secretary for Health and Wellbeing of the retention of accident and emergency services at both locations. This includes the potential impact of the decision on the Board's plans for other service redesign.

In response to the Mental Health (Care and Treatment) (Scotland) Act 2003, the Board approved the creation of a mental health services project programme board to oversee development of the service delivery structure. The mental health programme board was established in January 2007 and the terms of reference subsequently approved in April 2007. Establishment of the programme board facilitates a partnership approach to oversee and agree developments in a collaborative way, promoting shared understanding and ownership of recommendations.

## Partnership working

A board development workshop in December 2006 identified the need for a strategic partnership "overhaul" and identified the starting point for the overhaul as sharing experiences and aspirations with partners via a workshop session. Partnership working has been identified as a key development area and should ensure that appropriate and sufficient resources are available to implement agreed actions to achieve the Board's vision of 'creating a sustainable future'.

At the time of establishment in April 2005, it was agreed that the CHP model would be subject to review during 2006-07. The review is nearing completion and considers the nature and effectiveness of the Board's relationship with local authorities and the patient benefits obtained from the introduction of CHPs. Identification of the need to perform a comprehensive review, particularly one involving all partners rather than a review of internal arrangements, demonstrates good practice and the Board's commitment to effective partnership working for patient benefit. It is important that areas for improvement or weaknesses in the current structure are specifically identified and linked to defined recommendations for action.

The Board has recognised that it has one of the highest delayed discharge rates in Scotland. Although decreasing, in 2006-07 management indicated to the Scottish Executive Health Department that national targets may not be achieved. In acknowledgement of the severity of the situation and the risk to achievement of national targets, the board requested formal position statements from management to all board meetings from November 2006 and the target was achieved at 31 March 2007

A number of recommendations were made in relation to this area to enhance partnership working arrangements and these were accepted by management.

#### Performance management

Management developed a balanced scorecard to monitor and report performance against health improvement, efficiency, access and treatment ("HEAT") targets on a monthly basis. In addition, the health and performance governance committee is provided with detailed reports on high profile targets, for which the focus has recently moved from waiting times to delayed discharges. In addition to the local delivery plan, management prepare an annual operational plan which includes a combination of HEAT targets and other business indicators. Performance against this plan is reported to the patient services management team on an exception basis.

During preparation of the 2007-08 local delivery plan management has identified significant risks to achievement of delayed discharge and three other key targets (staff absence, emergency re-admissions and cancer waiting times). The corporate management team recognises that achievement of these targets will require organisational commitment at all levels across all disciplines. To address the potential risk that this presents management should ensure that robust arrangements are in place to monitor and report performance in a timely and accurate manner to provide a framework for accountability and responsibility.

Internal audit has reported some recommendations to enhance current arrangements, including:

- clarification of the responsibilities of the chief operating executive and director of strategic planning and performance for monitoring operational performance;
- avoidance of duplication between the local delivery plan and operational plan to clarify action planning and monitoring; and
- review of the current structure, where strategic planning and patient service performance management teams work independently to prepare HEAT progress reports, to increase efficiency and consistency.

### Workforce management

The 2007-08 workforce plan is in final draft form and will shortly be presented for approval. This builds on the previous plan and is more than an analysis of existing workforce statistics, although improvements can still be made in future plans. There is little evidence of formally linking strategic and operational workforce planning to service redesign. Following approval of the 2007-08 workforce plan, management should ensure appropriate representation on and input to working groups to ensure that workforce planning arrangements are considered in conjunction with, rather than after, the service redesign process.

There is no evidence of reporting of workforce management and development statistics at an operational level or to the staff governance or health and performance governance committees. This information, including absence management statistics, should be collated and used as a basis for reporting workforce management and development to the board or appropriate committee and demonstrate progress against the workforce plan during the year. In addition, management should consider the availability of forward looking workforce information to ensure that decisions are based on sufficient, reliable and appropriate information.

A number of recommendations have been made in relation to this area to enhance workforce management arrangements and these were accepted by management.

### Pay modernisation

Implementation of *Agenda for Change* has progressed with £4.7 million paid in back pay during the year. The accrual to reflect back pay to be settled during 2007-08 is £15.5 million for the 40% of staff not assimilated at 31 March 2007. Managing implementation of the pay modernisation agenda, particularly *Agenda for Change* and the knowledge and skills framework progressed during 2006-07. This will continue into 2007-08 to secure the benefits from significant, and continued, additional investment. The pay modernisation benefits realisation plan is updated on a regular basis and discussed at meetings of the staff governance committee.

### Information management

There is an integrated eHealth structure, including defined governance arrangements, formal lines of responsibility and a reporting framework to the health and performance governance committee. The eHealth strategy was approved in April 2006 and is supported by a three-year development plan linked to service benefits.

### Best Value

Audit Scotland's 2005-06 baseline review of arrangements assessed the Board's position in six out of the ten underpinning Best Value characteristics as 'well developed'. Three of the remaining four areas were assessed as 'under development' and 'a contribution to sustainable development' was addressed as 'planned'. A number of actions were subsequently agreed, including:

- using the Board's public performance reporting, including the local delivery plan and annual report to inform stakeholders what quality of service is being delivered and what they can expect in the future;
- a commitment to ensuring that there is a sound framework for planning and budgeting, including detailed and realistic plans linked to available resources to achieve organisational goals; and



- using the Scottish Executive sustainable development tool kit to help create an approach which targets areas where there are resource implications and assigns these elements to executive directors.

These actions have been progressed in the year and reports on implementation status submitted to corporate management team. These actions provide a framework under which the Best Value agenda can be progressed and monitored.

### **Efficient government**

The efficient government initiative is a five-year programme with the aim of tackling waste, bureaucracy and duplication in Scotland's public sector. NHS boards need to embrace the efficient government agenda and establish a clear programme for delivering efficiency savings. The 2005-06 efficient government diagnostic was completed in April 2006.

Management reported efficiency savings of £4.9 million were achieved 2006-07, primarily arising from staffing, procurement, supplies and property rationalisation. The efficiency target of £5.2 million for 2007-08 has been built into the financial plan and will include property rationalisation, supplies efficiencies, staff turnover, vacancy savings and local procurement, in addition to continuing savings from initiatives implemented in 2006-07.

Efficiency savings are reported internally to the patient services management team and to the Scottish Executive Health Department as part of the monthly monitoring return.

### **National shared support services**

During the period to January 2007 NHS Scotland has been developing proposals for shared support services in financial and related services in the form of a "hub and spoke" model. The response to the proposals, including that from the Board, was characterised by reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings. The project has recently been re-launched as the shared support services programme, involving a two-tier approach which seeks to build confidence in new ways of working, using common processes and systems, leading to a single services model based on a common finance system. The approach involves a "foundation" level of involvement around common ledger arrangements, or a "pathfinder" approach which seeks to develop more advanced elements. It is envisaged that a national business case for the revised approach will not be available until mid to late 2008.

The Board has indicated that it wishes to become a pathfinder area and host ledger services for other NHS boards moving onto the common financial ledger system for the first time.

### **National distribution centre**

The national distribution centre is being established to provide NHSScotland with an efficient logistics infrastructure and simplify the physical supply chain at both local and national level, and release clinical staff from ordering processes. The centre aims to save up to £18 million annually for re-investment in patient care, by getting lower prices from suppliers and delivering an efficient national service.

The Board was the first to use the centre in April 2006. Following a serious fire at the centre in November 2006 a number of operational problems were encountered, including insufficient order fulfilment due to a reduction in the number of stock lines, and increased delivery time. Throughout this period of reduced capacity management continued to use the centre, but, due to the reduction in available stock items, management reinstated local resources. Since April 2007, the centre has been used for all agreed stock lines.

### **External inspections / reviews**

The national standards for clinical governance and risk management: achieving safe, effective, patient-focused care and services were published by NHS Quality Improvement Scotland in October 2005. These standards are being used to assess the quality of services provided by NHSScotland nationwide. The results of the peer review of the Board were published in May 2007 and concluded that *"the NHS Board is implementing its policies, strategies, systems and processes:*

- *to control risk, continually monitor care and services and work in partnership with staff, patients and members of public;*
- *to provide care and services that take into account individual needs, preferences and choices; and*
- *to promote public confidence about the safety and quality of the care and services it provides."*

## Appendix – action plan

Priority rating for performance improvement observations raised		
<p><b>Grade one</b> (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Board or systems under consideration. The weakness may therefore give rise to loss or error.</p>	<p><b>Grade two</b> (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.</p>	<p><b>Grade three</b> (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>Despite the existence of claims in relation to equal pay, management has not yet been able to quantify the extent of the potential liability it may face.</p> <p>While some of the factors impacting resolution of this matter are outwith the Board's direct control, we strongly encourage management, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements.</p> <p><i>Grade one</i></p>	<p>The Board has received 1,850 grievances and 1,475 claims under the Equal Pay Act 1970.</p> <p>1,670 of the grievances and 1,374 of the claims relate to a collective claim by Unison.</p> <p>None have been settled and all are being dealt with through a national equal pay unit linked to the Central Legal Office, who will progress a test case. It is hoped the position will be clearer next April.</p>	<p>Director of finance</p> <p>30 April 2008</p>
2	<p>An annual report on payment verification and patient exemption checking is not routinely reported to the audit committee.</p> <p>In line with good practice, the audit committee should receive periodic reports on the findings from payment verification and patient exemption checking.</p> <p><i>Grade two</i></p>	<p>The head of financial services, in conjunction with head of primary care contracts will prepare and submit an annual summary report to the audit committee.</p>	<p>Head of financial services</p> <p>Head of primary care contracts</p> <p>30 April 2008</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
3	<p>Payments in respect of cross-boundary patient activity with Greater Glasgow &amp; Clyde and Lanarkshire NHS Boards are based service level agreements. Management apply national tariffs to cross-boundary activity with all other NHS boards, but has not calculated the net financial impact on the 2006-07 financial position or the 2007-08 forecast.</p> <p>Management should monitor the cost implications of changes in national tariffs and activity levels to provide accurate information for financial planning purposes.</p> <p><i>Grade two</i></p>	<p>The value of tariff based cross boundary flow outwith the west of Scotland is less than £1 million per year, whereas the west of Scotland cross boundary flow amounts to over £35 million. The major focus will therefore continue to be on west of Scotland changes in income and costs.</p>	<p>Commissioning accountant</p> <p>Ongoing</p>
4	<p>The Board's approach to NFI has not been formally documented and there is no plan or policy detailing who is taking responsibility for each type of match, planned timetable, how results will be recorded and the type of supporting evidence that will be collected. There is no control record detailing what matches are being reviewed, by whom, or the stage reached is being maintained</p> <p>While management has accessed the NFI database in recent months, it has not updated the electronic records with the results of internal work to resolve data matches. Only five of the 1,003 matches have been updated as resolved or being under investigation. Management has requested guidance from us to develop their understanding of the NFI process.</p> <p>It is recommended that the Board's approach to NFI should be formalised to ensure that key roles and processes are understood and consistently applied.</p> <p><i>Grade two</i></p>	<p>NFI information only became available at the end of January 2007 and the focus of payroll and human resources staff has been on assimilating staff onto <i>Agenda for Change</i> pay scales.</p> <p>The Board will now formalise the role of human resources and payroll in following up matches and welcome advice on the best process to take this forward.</p>	<p>Head of financial services</p> <p>31 December 2007</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
5	<p>During preparation of the 2007-08 delivery plan management has identified significant risks to achievement of delayed discharge and three other key targets (staff absence, emergency re-admissions and cancer waiting times).</p> <p>To address the potential risk that this presents management should ensure that robust arrangements are in place to monitor and report performance in a timely and accurate manner to provide a framework for accountability and responsibility.</p> <p><i>Grade two</i></p>	<p>The health and performance governance committee is empowered to review progress and highlight concerns to the board.</p>	<p>Director of strategic planning and performance</p> <p>Ongoing</p>
6	<p>Our review of financial systems performed before the substantiation stage of the audit identified that there is currently no process to review access rights or segregation of duties for financial systems.</p> <p>It is recommended that, to give assurance over segregation of duties and to control against fraud risks, management implements a procedure where users' access rights are circulated to line managers on an annual basis to allow them to verify the appropriateness of these rights.</p> <p><i>Grade three</i></p>	<p>We will implement procedures to address this as part of pathfinder review services.</p>	<p>Head of financial services</p> <p>30 September 2007</p>

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