



INFRASTRUCTURE, GOVERNMENT &  
HEALTHCARE

# Dumfries and Galloway NHS Board

Annual audit report to Dumfries  
and Galloway NHS Board and  
the Auditor General for Scotland  
2006-07

25 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 Dumfries & Galloway 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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We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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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 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. 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 25 June 2007 we issued an audit report giving our unqualified opinion on the financial statements of the Board for the year ended 31 March 2007 and on the regularity of transactions reflected in them.

## **Corporate governance**

The chief internal auditor's annual review of the Board's control environment and compliance with financial operating instructions, together with reports from the Board's committees, has not identified any significant matters having implications for its statement on internal control. There were only a small number of "high" priority recommendations arising from the approved programme of internal audit work completed during the year.

Some process weaknesses exist in the Board's approach to its participation in the National Fraud Initiative, including the absence of regular updates to the electronic records with the results of internal work to resolve data matches.

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

## **Performance management**

Projects are monitored on an ongoing basis at operational and strategic level, but procedures have only recently been implemented to promote consistency of approach. The outline business case and investment plan for redesigning and modernising mental health services was approved during the year and will have significant financial and operational implications requiring strong direction and close management attention.

There is a strong degree of partnership working with the local Council at operational and strategic levels. Management are currently reviewing the effectiveness of the current structure, including the community health partnership, with a view to strengthening the governance and reporting arrangements.

Regular performance reports are compiled, analysing performance against national and local targets for health improvement, efficiency, access and treatment. The key focus in the acute sector is on achievement of waiting times targets through service redesign and capacity planning.

Managing implementation of the pay modernisation agenda, particularly *Agenda for Change* and the knowledge and skills framework, was a priority in 2006-07 and will continue into 2007-08 to maintain staff morale and demonstrate benefit realisation from the significant, and continued, additional investment.

# Introduction

## **Audit framework**

This was the first year of our five-year appointment as external auditors of Dumfries and Galloway 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. 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 25 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.

### Cross-border emergency treatment arrangements

Up to 2005-06, income for cross-border emergency treatment was received by the Board via the Scottish Executive Health Department, which retained the risk of non-recovery. From 1 April 2006, NHSScotland boards are responsible for local collection of this income. Management has considered £386,000 still due for 2006-07 from English NHS trusts as at 31 March 2007 and made a provision of £114,000 against the possibility of non-recovery, based on an assessment of the likelihood of non-recovery for each NHS trust. In view of the increased risk of non-payment, this process appears reasonable, particularly as a significant proportion of invoices considered unrecoverable arise from differences in the timing of guidance issued to Scottish and English NHS bodies, resulting in dispute over amounts payable.

### PFI / PPP

The maternity and day surgery unit in Dumfries, opened in 2002, is operated under a public finance initiative agreement for 30 years. The agreement is accounted for off-balance sheet. The estimated capital value is £10 million and the service charge for the year was £1.3 million. The Board currently has no other major projects at an advanced stage which will be procured under PFI / PPP.

### 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 221 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 highlights that the organisation is committed to a process of continuous development and improvement, developing systems in response to any relevant reviews and developments in best practice in this area, including further development of a system of annual service reviews led by the chief executive and involving all executive directors.

The Board's chief internal auditor performs an annual review of the Board's control environment and compliance with financial operating instructions. This is used to inform the SIC and concluded that "*the relevant systems are operating satisfactorily*". In addition, a report from each committee was submitted to the board to provide evidence for the chief executive in his consideration of the effectiveness of the system on internal control.

### Governance arrangements and risk management

In January 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 "*within NHS Dumfries and Galloway there is a clear commitment to implementing risk management and to ensure policies, strategies, systems and processes are fully embedded throughout the organisation. A proactive approach to awareness raising and embedment of risk management was noted by the review team. This was evident through the delivery of risk management training to all staff which has resulted in a 'bottom up' approach.*" 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.

The report also noted that "*in the absence of a Board-wide business continuity plan ... emergency and continuity planning systems are in developmental stages within this core area*". We understand that progress has been made and a draft plan has been prepared. Management should ensure that this is

completed and implemented in a timely manner to mitigate the risk to continued provision of healthcare services.

#### Internal audit

Summarising the results from some 53 assignments completed during the year, the annual report of the chief internal auditor states that the Board *“has good systems in place to identify major risks, adopts appropriate policies and procedures for their management and has generally a sound system of controls which are for the most part consistently applied”*.

#### 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 contractors and patients. 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 £207,446 (2005: £151,676). This increase, while immaterial overall, is contrary to the 36% decrease reported at a national level. Management are liaising with CFS to identify any specific reasons for the change, but 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, decisions on follow up actions and reporting of summary results to the audit committee. 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. Annual reports on payment verification and patient exemption checking are prepared for the audit committee.

Management starts collating quality information in December and subsequently monitors results during the three months to 31 March to identify any unusual activity around the year end. In accordance with current arrangements, 17 practices were visited and a sample of 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. All issues identified during the verification process were resolved by management.

#### Internal control

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. Our work in this area included specific consideration of budget-setting and reporting arrangements. A number of recommendations were made in relation to this area to improve financial control; at the time of this report management has made significant progress in implementing our recommendations.

We also identified some areas where the control environment could be enhanced, including that a risk register for fraud risks is created to consider the specific risks faced by the Board in this area, and that a formal programme of regular review for all key policies, procedures and strategies is introduced to provide assurance that key documents accurately reflect the organisational and legislative framework. Recommendations to address these were accepted by management and a number of these have been implemented since the year end.



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.

## **Prevention and detection of fraud and irregularity**

### **Fraud policy**

The Board has an established fraud policy, including a fraud action plan, which is available for all staff to view on the intranet. The policy describes relative roles and responsibilities of those working within the organisation to identify lines of accountability and provide guidance to support action, and sets out the procedures which should be followed when reporting suspicion of fraud. The content of the policy meets the requirements and identifies specific responsibilities for the prevention and detection of fraud, but we recommended in our interim management report that the policy should be reviewed and updated on a regular basis. There is a designated fraud liaison officer, 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 chief internal auditor is the NFI key contact and is responsible for facilitating the review and reporting of the work being performed. The chief internal auditor works closely with the head of human resources and the payroll team leader to review matches. Focus is directed to the matches that require to be reviewed internally. Progress was formally reported to the audit committee in March 2007; this did not identify any significant issues requiring specific attention.

We identified the following process weaknesses requiring attention:

- the key contact for NFI has not been formally identified within the database;
- management has accessed the NFI database in recent months, but has not updated the electronic records with the results of internal work to resolve data matches;
- the Board's approach to NFI has not been formally documented and there is no plan detailing who is taking responsibility for each type of match, 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, the stage reached is being maintained; and

- there is no NFI timetable.

### Standards of conduct

The Board has an approved code of conduct for board members, which outlines the responsibilities of board members in fulfilling their duties and meets the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000.

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. This includes ensuring those patients' interests are paramount, being impartial and honest and using public funds to the best advantage to achieve value for money. 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 £9.3 million as at 31 March 2007. The forecast was revised to £14.2 million in January 2007 as a result of favourable cost and market conditions, internal efficiencies, additional revenue allocations received during the year and slippage in the start date of a number of projects. The actual outturn as at 31 March 2007 was a cumulative surplus of £14.1 million. The following table summarises the significant movements during the year.

	<b>£'000</b>
2006-07 forecast cumulative outturn per the financial plan	9,300
Ring fenced funding re-profiled into 2007-08	957
Reduction in expenditure	3,402
Additional funding received	234
Slippage in capital projects	431
Increase in payments	(194)
<b>2006-07 actual outturn at 31 March 2007</b>	<b>14,130</b>

Source: Dumfries and Galloway NHS Board (May 2007)

A four year financial plan was submitted in line with the Scottish Executive Health Department timetable in February 2007. The plan was subsequently approved by the board on 15 May 2007. The table below summarises the projected financial performance.

	<b>2007-08 (£'000)</b>	<b>2008-09 (£'000)</b>	<b>2009-10 (£'000)</b>	<b>2010-11 (£'000)</b>
In-year surplus / (deficit)	2,486	(11,793)	198	(32)
<b>Cumulative surplus against the revenue resource limit</b>	<b>16,616</b>	<b>4,823</b>	<b>5,021</b>	<b>4,989</b>

Source: Dumfries and Galloway NHS Board financial plan (May 2007)

During the board meeting a number of projects were approved, reducing the projected cumulative surplus in 2007-08 to £14.3 million, including the 2007-08 capacity plan requiring additional funding of £2.1 million. The board has now approved additional projects, including modernising medical careers and mental health staffing. The forecast outturn in 2007-08 is now £11.3 million. The significant in-year

deficit in 2008-09 primarily relates to ongoing initiatives, including significant repairs and maintenance within Dumfries and Galloway Royal Infirmary and the revenue impact of the mental health project.

The net impact of the NHS tariff scheme during 2006-07 was a cost of £0.4 million. The remaining six specialties will be included in the scheme in 2007-08. Management is currently forecasting that the extension will be cost neutral based on information available to date, but finalised tariffs for 2007-08 are not yet published.

In 2006-07 the Board adopted a zero-based budgeting approach in a number of significant areas, such as *Agenda for Change*, but this was not based on a formal risk assessment. The director of finance has implemented a budget review policy to ensure that operational budgets reflect agreed service provision. The policy outlines the triggers for a detailed budget review and requires that all budgets are assessed at least once every four years. This is likely to strengthen the financial management framework.

The process of retaining significant levels of centrally held funding for operational projects and future commitments may have been a factor in the significant, and ongoing, surplus financial outturn. The four year financial plan forecast a reduction in centrally held reserves from £15.6 million in 2007-08 to £11.4 million in 2010-11, primarily due to the completion of specific estates projects and other short term initiatives. Senior management formally issued guidance to budget holders detailing items reflected in agreed budgets and notifying them of central funding relating to projects they are expected to deliver in year, aiming to minimise levels of unspent reserves. Subsequent approval of key projects and initiatives reduced the level of centrally held reserves at 31 May 2007 to £3 million. Movements on centrally held reserves will be reported to the board to provide assurance that these are being managed appropriately.

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	246,251	258,065
Recurring expenditure	246,148	255,067
<b>Underlying recurring surplus</b>	<b>363</b>	<b>2,998</b>
Non-recurring income	17,692	16,518
Non-recurring expenditure	5,606	9,260
<i>Balance of non-recurring</i>	<i>12,086</i>	<i>7,258</i>
<b>Difference</b>	<b>12,449</b>	<b>10,256</b>
Other income sources	731	-
Non-recurring SEHD income/year-end support	-	-
Corporate savings programme (excluding time releasing savings)	950	995
<i>Total other income</i>	<i>1,681</i>	<i>995</i>
<b>Financial surplus</b>	<b>14,130</b>	<b>11,251</b>

Source: Dumfries and Galloway NHS Board minimum dataset (June 2007)

# 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 during the planning phase of our work identified the need to carry out more work on arrangements in relation to project management, budgeting processes and the Board's joint working with Dumfries and Galloway Council.

The previous external auditors made a number of recommendations arising from their work on the priorities and risks facing the Board, particularly in relation to risk management arrangements. During 2006-07 these arrangements have been progressed, including the creation departmental risk registers.

## Project management

The project management process includes establishment of the project team, initial cost estimates, preparation and approval of the project plan, and the tendering process. Projects are monitored on an ongoing basis at operational and strategic level. During 2006-07 the board requested that progress against capital projects was formally reported on a regular basis. The director of finance now presents a report to every second meeting, summarising progress in major projects and a financial summary of actual spend against budget.

Project management procedures have recently been implemented to promote consistency of approach. Management are actively recruiting for a number of posts, including a project manager to strengthen arrangements in project management.

## Partnership working

There is a strong degree of partnership working with the Dumfries and Galloway Council at operational and strategic levels. The structure is based on the joint future executive partnership board, supported by the joint future senior management group, both of which have a wide membership from the Board and the Council. The chief executives of both organisations meet regularly and are invited to comment on relevant strategies and organisational decisions that impact the provision of health related services.

A community health partnership ("CHP") was established on 1 April 2005, and management are currently reviewing the effectiveness of the current structure, including the relationship between the CHP committee and the joint future executive partnership board, with a view to strengthening the governance and reporting arrangements.

## Service sustainability

The Board has recognised the need to change the way services are delivered to meet the future needs of the population in an area with a growing population of older people. The director of public health is leading development of the Board's strategic framework, based on a combination of increasing productivity and the need to focus on self-care and prevention, which was first presented during the November 2006 board meeting.

After a number of years in which options and affordability were closely scrutinised, the initial outline business case and investment plan for re-designing and modernising mental health services was approved in November 2006, with a revised outline business case approved in June 2007. The length of time taken to develop an affordable strategy for these services may impact on the Board's ability to meet the primary care healthcare needs of the local population in the short term. As the financial commitment is for £19.3 million capital funding and £2.2 recurring revenue funding, achievement of revenue and capital financial targets in the coming years is dependent on timely and successful progression of this strategy. This will require close management attention.

#### Performance management

Management prepare a quarterly performance report for board members, analysing performance against each of the health improvement, efficiency, access and treatment ("HEAT") targets in turn. The key focus in the acute sector is on achievement of waiting times targets through service redesign and capacity planning. Implementation of the consultants' contract and *Agenda for Change* and the knowledge and skills framework is providing management with the ability to integrate performance management, staff development and accountability.

#### Pay modernisation

Implementation of *Agenda for Change* has progressed and £2.5 million was paid in back pay during the year. An additional £1.5 million has been accrued as at 31 March 2007 to reflect back pay to be settled during 2007-08. Managing full implementation of the pay modernisation agenda, particularly *Agenda for Change* and the knowledge and skills framework, was considered a priority in 2006-07 and will continue into 2007-08 to maintain staff morale and demonstrate benefit realisation from significant, and continued, additional investment. The pay modernisation benefits realisation plan is updated on a regular basis and discussed at meetings of the pay modernisation board.

#### Information management

In September 2005 the Board formally approved its information management and technology ("IM&T") strategy in compliance with e-health guidance. This has been used for the basis of capital funding bids the internal investment plan. Full implementation of the strategy is planned for the summer of 2007. Obtaining the necessary ongoing revenue funding to support capital investment continues to be challenging. In addition, the Board's share of additional specific funding from the Scottish Executive is based on the Arbuthnott formula, which management believes could be disproportionate to the difference in cost of implementing a new system in small or large boards.

#### Best Value

Audit Scotland's *Code* requires auditors to consider Board's arrangements to achieve Best Value. The 2005-06 baseline review of arrangements assessed the Board's position against 10 Best Value characteristics. The Board's position in six out of the ten underpinning characteristics was 'well developed'; the remaining four areas were assessed as 'under development'.

Following consideration by the audit committee of Audit Scotland's baseline review of Best Value arrangements in the NHS, a number of actions were agreed, including:

- raising awareness of Best Value at the corporate management team in November 2006 and distributing a guide to managers;
- reviewing the template for business cases to ensure all relevant aspects of Best Value are taken in to account; and

- consideration of the expanded guidance and evidence of review activity undertaken during the year.

These actions were subsequently progressed, with reports on implementation status compiled and submitted to governance committees. Sustainable development remains an area requiring further management attention. 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 by the Board and submitted to Audit Scotland in April 2006.

Management reported efficiency savings of £2.1 million were achieved during the year, primarily arising from staffing and activity levels. The efficiency target of £2.2 million for 2007-08 will include reduced use of the private sector, proactive workforce planning and reduced use of locums, in addition to continuing savings from initiatives implemented in 2006-07.

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

During 2006-07 there was some evidence that budget holders are not fully complying with the policy to declare surplus funds from efficiency savings. Accordingly, the director of finance has recently implemented a policy to formalise the approach and allow senior management the opportunity and ability to prioritise spend. The efficiency plan will be agreed with operational managers, a process being led by the chief executive and director of health services. Progress against the agreed efficiency will be reported to the finance committee during the year.

### **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 would like to participate in a consortium approach to the implementation of common services based on a managed financial ledger service hosted by Ayrshire and Arran NHS Board.

### **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 second NHS board to use the centre, joining in July 2006. £40,000 of efficiency savings, primarily staff cost savings, were identified for achievement in 2006-07. Following a serious fire in the centre in November 2006 and a number of operational problems, including insufficient order fulfilment and increased turnaround time from order to delivery, management returned to local ordering and supply. Re-use of the centre for some items commenced in February 2007 and returned to full use in April 2007, but we understand that some the original problems have not been resolved. As a result, none of the planned staffing savings have been achieved. Management has implemented a process to monitor delivery details and has reviewed the recent operational report issued by the centre.

#### **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 January 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 resolution of equal pay claims within the Board is being handled through a co-ordinated Scotland wide approach involving all NHS boards affected, the Scottish Executive Health Department and the Central Legal Office.</p> <p>While management carry local responsibility for the claims against our own employing organisation, the impact of local claim outcomes may affect other parts of the service, and therefore must be considered in a co-ordinated and consistent fashion Scotland-wide. The timing of such outcomes is subject to a number of external factors involving representative organisations and the Employment Tribunal Service, over which we have no control.</p> <p>Management will therefore continue to work closely with the Central Legal Office to ensure that our cases are progressed timeously, in accordance with the national programme, but can not currently predict when we will be able to assess the value of the liability of the actions before us.</p>	<p>Director of human resources</p> <p>Ongoing</p>



No.	Issue and performance improvement observation	Management response	Officer and due date
2	<p>A number of issues were identified in respect of NFI:</p> <ul style="list-style-type: none"> <li>• the key contact for NFI has not been formally identified within the database;</li> <li>• management has accessed the NFI database in recent months, but has not updated the electronic records with the results of internal work to resolve data matches;</li> <li>• the Board's approach to NFI has not been formally documented and there is no plan in place detailing who is taking responsibility for each type of match, how results will be recorded and the type of supporting evidence that will be collected;</li> <li>• there is no control record detailing what matches are being reviewed, by whom, within what timescales and stage reached is being maintained and there is no NFI timetable in place.</li> </ul> <p>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>The process was controlled by the chief internal auditor, with investigative support from two members of his team.</p> <p>The requirements of the NFI manual were complied with and given the chief internal auditor's active control and the small number of people involved, the view was taken that a more elaborate project management infrastructure was not required.</p> <p>We aim to learn from this NFI round and as part of transferring that learning, will set out a more formal process for the next exercise.</p>	<p>Director of finance</p> <p>Chief internal auditor</p> <p>30 September 2007</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
3	<p>There is no Board-wide business continuity plan and emergency planning systems are in developmental stages.</p> <p>Management should ensure that the draft business continuity plan is completed and implemented in a timely manner to mitigate the risk to continued provision of healthcare services.</p> <p><i>Grade two</i></p>	<p>The Board has recently completed a series of training sessions designed to assist service heads and managers to develop detailed business continuity plans. A series of templates is under preparation to provide further assistance.</p> <p>In addition, a draft Board-wide business continuity Policy has been drafted. A draft corporate framework for business continuity has also been circulated to executive directors and senior managers for comment.</p> <p>It is anticipated that business continuity plans for all major service areas will be drafted by 31 December 2007.</p>	<p>Board secretary</p> <p>31 December 2007</p>

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