Highland Health Board

Report on the 2006/07 Audit

AUDIT SCOTLAND

July 2007

Highland Health Board

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Executive Summary

Introduction

Based on our analysis of the risks facing NHS Highland in 2006/07 our audit work included: a review of governance arrangements, including a Computer Services Review; a review of the Board's financial position and financial management arrangements; and a review of partnership working through Community Health Partnerships. We also audited the financial statements, including a review of the Statement on Internal Control. Overall, 2006/07 has been a challenging year for NHS Highland, however the Board has achieved the integration of the new Argyll area following the dissolution of NHS Argyll and Clyde, and has seen the removal of two previous qualifications to its financial statements, while achieving financial balance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of Highland Health Board for 2006/07. The Board carried forward a £1.488 million surplus from 2005/06 and was able to improve on this position by achieving an in-year surplus of £5.341 million to report a cumulative surplus at 31 March 2007 of £6.829 million.

Table 1
Financial Performance

	2006/07 £ Million	2005/06 £ Million (restated)
Net operating costs Less capital grants to other bodies Less FHS non-discretionary income	512.287 (2.404) (24.014)	484.894 (1.158) (20.109)
Net resource outturn RRL	485.869 492.698	463.627 465.115
Saving against RRL	6.829	1.488
Capital grants Capital expenditure Capital disposals (@ NBV)	2.404 15.526 3.562	1.158 14.128 3.052
Net capital expenditure CRL	14.368 14.804	12.234 12.661
Saving/excess against CRL	0.436	0.427

Financial balance has been achieved this year, in part, by managing the position using the sale of assets under the surplus sites agreement. In previous years, NHS Highland recognised that it was reliant on the

use of non-recurring monies to achieve financial balance and it instigated a financial recovery plan which included significant cost savings programmes. The Board reported savings of £17.705 million in 2006/07 and plans to make a further £11.7 million of savings in 2007/08 and plans to be in recurring balance by 2009/10. However, it will be challenging to meet this target as savings on this scale will be difficult to achieve. The timescale for achieving recurring balance will be threatened if unplanned items emerge during this time.

Performance management

Performance management arrangements were improved in 2006/07 through the roll out of the balanced scorecard performance tool across the Board, including the Argyll & Bute area. This has enabled the Board to monitor and report its performance against the HEAT targets.

During the year we carried out a review of arrangements for the management of Community Health Partnerships (CHPs). Our review was primarily focussed on the use of resources, although it also included work on performance management and data sharing. Our overall findings from this study were:

- Governance and performance management arrangements are well developed within the CHPs.
- Following early concerns around delayed discharge performance, Argyll & Bute CHP actively engaged with Argyll & Bute Council to resolve the matter. CHP managers hold regular meetings with Council management and devised joint strategies for addressing earlier problems.
- Financial management arrangements within the CHPs are generally robust.
- Information sharing arrangements within NHS Highland are developing. As a consequence of changes to its geography, the Board is now working with a range of new partners in Argyll & Bute, including Strathclyde Police and Argyll & Bute Council.

Governance

NHS Highland has made progress in incorporating *Delivering for Health* in its strategies and objectives and has developed a local delivery plan.

During the year we carried out a review of the Board's Financial Position and Financial Management arrangements. This review, which was carried out across all NHS bodies audited directly by Audit Scotland staff, considered whether: financial planning is integrated with the overall strategic aims of the Board; the budget setting processes are robust; and there is adequate scrutiny of financial plans and budget monitoring undertaken across the Board.

We concluded that the Board's financial planning and financial management arrangements were robust but that it will continue to face challenges in delivering a significant savings programme.

We also carried out a computer service review during the year and noted that:

- NHS Highland has not yet prepared a strategic plan that defines the overall approach to business continuity.
- Further, a risk management process that ensures appropriate security measures and controls relating to information and IT assets are in place, has not been established within the organisation.

We concluded that NHS Highland faces significant challenges in its plan to establish an organisational model that embraces all parts of the NHS Highland health area. The eHealth department is tactically designed for single system working, although there is a need to develop its risk management process to feed into the corporate-wide risk management process.

Audit Scotland

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Introduction

1. This report summarises the findings from our 2006/07 audit of NHS Highland. The scope of the audit was set out in our Audit Risk Analysis & Plan, which was presented to the Audit Committee on 19 December 2006. This plan set out our views on the key business risks facing the Board and described the work we planned to carry out on financial statements, performance and governance.

2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.

3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.

Organisational Risks

Introduction

4. In our audit plan, we identified five main areas of risk for NHS Highland. We also described longer term planning issues which would impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status.

Governance

5. NHS Argyll and Clyde was dissolved on 31 March 2006, and responsibility for the delivery of health services to the resident population was transferred to NHS Highland and NHS Greater Glasgow. NHS Highland assumed responsibility for health services in the geographical area corresponding to Argyll & Bute Council's boundaries. We highlighted in our audit plan that the integration of Argyll & Bute into NHS Highland was the single largest risk facing the organisation during 2006/07.

6. We carried out a review of the development of community health partnerships (CHP) in NHS Highland, focussing on the Argyll & Bute CHP and the South East Highland CHP. We observed that the Argyll & Bute CHP has established working governance structures and is integrating with the rest of NHS Highland. Some of its operational activities differ from the three other CHPs, but it was clear that the Argyll & Bute CHP was being integrated and was operating consistently with the wider objectives of NHS Highland. Detailed findings from our review of partnership working through the CHPs are set out in the Performance section of this report.

Partnership working and performance management

7. The patient flow of Argyll & Bute CHP residents is largely towards services in the Glasgow area rather than Inverness. As a result, the Argyll & Bute CHP, which contracts with NHS Greater Glasgow and Clyde on behalf of NHS Highland, agreed a service level agreement of around £40 million for 2006/07. This amount was based on a block contract on the understanding that patient flows would be subject to a detailed review to improve the costings used. This review has now been carried out and has had the effect of increasing the cost base to NHS Highland by a further £5 million. This new cost has been factored into the Board's 2007/08 financial plans, but NHS Highland should continue to monitor these costs to ensure that they accurately reflect patient activity.

Action Point 1

8. Our audit plan drew attention to the challenges faced by the Argyll & Bute CHP in achieving the delayed discharge HEAT target. A number of actions were successfully instigated during the year in response to this challenge and NHS Highland achieved its target performance level. The Delayed Discharge Action Team in Argyll & Bute led on this work during the year and plans a further audit of performance against the Leaving Hospital Guidance in 2007/08.

Service sustainability

9. In our audit plan, we commented on the risks relating to the Board's ability to provide appropriate, safe, sustainable services in an environment of changing clinical demands and we highlighted several factors impacting on the risks. The potential risks identified included:

   - the local health plan may not meet the requirements of *Delivering for Health*;
   - the Board may not have sufficient management capacity to implement *Delivering for Health*; and
   - the impact of the rurality and remoteness of the Board area on the cost of providing Out of Hours medical services.

10. In *Delivering for Health,* the Minister for Health and Community Care responded to the recommendations made in the Kerr report. This response sets out a programme of action for the NHS to shift the balance of care from episodic acute care, particularly through emergency admissions, to a more proactive approach in the form of preventive care services.

11. We found that NHS Highland responded to *Delivering for Health* and produced a local delivery plan covering all geographic areas, including the Argyll & Bute CHP. Following the transfer of the Argyll & Bute area to NHS Highland, the Board revised its LDP so that it fully reflected its new geography.

Financial management

12. In our audit plan, we commented that there were significant risks to the achievement of the challenging savings targets within the financial plan for the period to 2009/10, with unprecedented levels of recurrent cost efficiencies to be found. Changes to the capital funding regime which restrict the use of capital to revenue transfers also added significant risks to the achievement of the Board's financial targets.

Action Point 2

13. In addressing this area we carried out a review of the Board's financial position and financial management arrangements and our findings are covered in the Governance and Financial Statements sections of this report.

People management

14. Last year the SEHD set a revised Agenda for Change deadline for staff to be assimilated by 31 October 2006 which was then revised to 31 March 2007. Across the NHS in Scotland full implementation of AfC is proving to be a slow and resource consuming process. NHS Highland, excluding Argyll & Bute staff, set a revised target to assimilate 75% of staff by the end of December 2006. It achieved a 74% assimilated rate by this date. The Board reported in its April 2007 staff governance annual report for 2006/07 that all uncomplicated assimilations had now been completed.

15. The SEHD gave boards a target to complete the assimilation process and make payment of all arrears to staff by 31 March 2007. Although clear progress was made in the assimilation of staff during the year there remained a high value accrual of £13.5 million for arrears in pay at the year end. This represents an increase of £5.4 million (67%) from the previous year as it covers the arrears of pay from October 2004. At the year end 57% of assimilated staff had received their arrears. There remains a potential that this figure could increase if appeals lodged by a number of staff groups who have already been assimilated are successful and therefore the full financial implications of AfC cannot be accurately costed until further progress is made.

16. In our audit plan we highlighted the risk faced by the Board as a result of not having its own dedicated electronic human resources system and instead used the national SWISS HR system and its own payroll system for detailed workforce information. We noted that arrangements compromised the Board's HR management information systems and presented a risk to informed decision making. The Staff Governance Annual Report provided details on developing arrangements including the use of information from the national Scottish Standard Time System (SSTS) to supplement SWISS. We will continue to monitor developments in this area to ensure that the Board has sufficient information to plan for changes to its workforce.

Action Point 3

Equal pay claims

17. There have been significant recent developments in the area of equal pay claims. 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. The NHS Central Legal Office, co-ordinates the national NHS approach to this issue.

18. As at 31 March 2007 NHS bodies had received some 10,000 claims and these had been referred for attention to the Central Legal Office. 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 NHS boards generally and in particular for NHS Highland; which had received 309 grievances on this issue and 130 employment tribunal claims.

19. We have not been able to obtain any estimate of the potential liability for these claims. For 2006/07 we have accepted this position because of its stage of development and as a result of NHS Highland 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 NHS Highland management, working with the Scottish Executive Health Department and other NHS boards, to resolve this matter in advance of compilation of next year's financial statements.

Action Point 4

Information management

20. Our audit plan noted the challenges facing the Board in integrating the Argyll & Bute area into the greater NHS Highland. In particular we drew attention to the number of different and potentially incompatible information systems in place which increased the risks arising from unreliable management information.

21. In addressing this area we undertook a review of NHS Highland's ICT arrangements through a Computer Services Review, carried out by our computer audit specialist. The findings from this review are detailed in the governance section of this report.

Longer term planning issues

22. Longer term planning issues which we have identified will have an impact on the Board in future years are as follows:

    - Modernising Medical Careers; and
    - National shared support services.

23. We have been monitoring developments in these areas during the 2006/07 audit. In the following paragraphs, we comment on changes that have taken place.

Modernising Medical Careers

24. Modernising Medical Careers (MMC) is an initiative introduced to reform postgraduate medical training throughout the UK. It aims to provide a focussed training programme which will reduce the time taken for consultants and GPs to become fully trained.

25. While MMC is still at a relatively early stage it is important to highlight that the process presents both short term and long term risks to the performance of the Board:

    - the biggest short term risk is the potentially adverse impact on service delivery resulting from a general loss of staff time absorbed by the process both in terms of those receiving and delivering the training; and
    - in the longer term there is a potential financial impact for the Board as staff will now be able to qualify more quickly than was previously the case which will mean they are also able to move pay grades more quickly which will create a resultant cost pressure.

26. Work is ongoing regarding the implementation of modernising medical careers (MMC). The Board are currently in the process of introducing new Personal Development Plans (PDPs) for all staff and a key component of these plans are the requirements of MMC for relevant staff. Once the PDPs are all in place the Board will be in a position to assess the unmet need and fully evaluate the additional costs in relation to MMC.

National Shared Support Services Programme

27. During the period from December 2004 to January 2007, NHS Scotland has been developing proposals for shared support services across the sector. It had been envisaged that this would take the form of a 'hub and spoke' system which delivered financial and related services for all NHS Scotland bodies from two central hubs with feeder activities at local Board level. A Draft Full Business Case (FBC) had been developed for this model and was made available for consultation at the end of 2006. The response to the FBC from NHS Scotland organisations, whilst supportive of the overall principle of shared services, was characterised by reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings.

28. The Shared Support Services Project Board met in February 2007 to consider responses received and concluded that it would not proceed with its Draft Full Business Case in its current form. The project has now been re-launched as the Shared Support Services Programme. This involves a two-tier approach which seeks to build confidence in the new ways of working, using common processes and systems, eventually leading to a single services model based on a common finance system. The approaches comprises: a Foundation level of involvement, for all Boards centring around developing common ledger arrangements; a Pathfinder approach which seeks to develop the more advanced

elements of the proposed development. Expressions of interest are being sought from Boards for Pathfinder status and a number of workshops have been held to begin the development of potential service solutions.

29. This is a highly significant development for the NHS in Scotland and the process so far has been protracted, with a major recent change in emphasis. It is estimated that a revised business case will not be available until mid- to late-2008. Full system migration is presently estimated at March 2009. There remain significant risks for the service in securing the delivery of the project, particularly in engaging and involving Boards and their staff and in developing systems which deliver clear benefits for the NHS in Scotland. Auditors will continue to monitor the development of these arrangements and the management of related risks.

Financial Statements

Our responsibilities

30. We audit the financial statements and give an opinion on:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements, and
- the regularity of the expenditure and receipts.

31. We also review the Statement on Internal Control by:

- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control, and
- assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

32. We have given an unqualified opinion on the financial statements of Highland Health Board for 2006/07. The previous external auditor qualified their opinion on the 2005/06 financial statements on two separate issues. We reviewed these matters during the year and considered the Board's response to the previous qualifications. In respect of the accounting treatment for the New Craigs Hospital PFI, the Board recognised that it had not complied with accounting standards in previous years and amended its in-year accounting treatment. This served to remove any potential disagreement and therefore the qualification. However, we did not concur with the Board's accounting treatment for the costs from prior years. Further details are provided at paragraph 41.

33. The second qualification in 2005/06 related to the accounting treatment for the Easter Ross Primary Care Resource Centre PFI. The Board's previous auditor's view was that it should be treated as being an asset of the Board to be shown in its balance sheet, while the Board took the view that it should be treated as off-balance sheet. At the time of our appointment we agreed that we would provide an early view on the accounting treatment. Following a detailed review of supporting information, we concluded that the Board's accounting treatment was reasonable and that it should be accounted for off-balance sheet. The qualification has therefore been removed.

The Board's financial position

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

Table 2
2006/07 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource Limit	492.698	485.869	6.829
Capital Resource Limit	14.804	14.368	0.436
Cash Requirement	593.963	593.963	-

35. The Board has achieved a cumulative surplus of £6.829 million. The Board carried forward a £1.488 million surplus from the previous year. This means there was in an in-year surplus of £5.341 million.

36. Attainment of the RRL target has largely been achieved through the recognition of revenue from a property transaction connected to the New Craigs PFI which dates back to 2000. This arrangement (known as surplus sites agreement) concerned land at the Craig Dunain Hospital and allowed the Board to recognise a long term debtor and income of £8.9 million. It is noted that this amount is greater than the Board's cumulative surplus. This means that not only was there a shortfall in achieved savings, but the proportion coming from non-recurring sources was higher than planned.

37. The Board's financial position was also supported by a corporate savings programme and recognition of expenditure items as capital grant schemes, as appropriate, thus scoring against the Capital Resource Limit (CRL) and not the RRL. During the year the board received £8.6 million of non-recurring funding which included the £4.6 million in relation to the revised accounting treatment of the Surplus Sites Agreement at the former Craig Dunain Hospital site as detailed above. Stripping out the application of this non-recurring funding out allows us to reflect the underlying recurring funding gap in NHS Highland for 2006/07, as illustrated below.

Table 3
Funding Position 2006/07

	£ Million	£ Million
Recurring expenditure	568.258	
Recurring income	553.397	
Underlying recurring surplus/(deficit)		**-14.861**
Non-recurring income	11.614	
Non-recurring expenditure	7.629	
Balance of non-recurring		3.985
Difference		**-10.876**
Other income sources	0	
Non-recurring SEHD income/year-end support	0	
Corporate savings programme	17.705	
Total other income		17.705
Financial surplus		**6.829**

38. NHS Highland's 2006/07 financial plan included a £17.705 million savings target to achieve financial balance. The Board achieved this target during the year, with £11.674 million of savings on a non-recurring basis. This is a positive outcome which demonstrated that the Board was able to manage a long term cost reduction programme. The Board's revised financial plan for 2007/08 includes a savings target of £11.7 million made up of £8.3million recurrent savings and £3.4 million of non-recurrent savings. This level of savings clearly presents a significant challenge to the Board's performance during 2007/08.

39. Two significant local issues have also emerged that place additional cost pressures on the Board:

- at present the SEHD allocates funds to NHS Boards on the basis of the Arbuthnott funding formula. This takes account of the relative size of population within each Board, adjusted for other known factors, including age/gender mix, levels of deprivation and remote and rural considerations. The Arbuthnott methodology is currently being reviewed by the NHS Scotland National Resource Allocation Committee (NRAC) in light of recent developments such as *Delivering for Health*. NHS Highland have anticipated that under the revised Arbuthnott funding formula they will receive a reduction in funding of around £1 million in each of the next 3 years. This therefore presents an additional cost pressure for the Board and the 2007/08 budget and their recovery plan have both been updated to reflect this; and

- in addition the Board also face an additional cost pressure relating to the SLA with NHS Greater Glasgow and Clyde. This has been assessed to increase their recurrent deficit by £5 million and as a consequence the savings plan has therefore been revised to include the additional efficiency savings required to offset this new recurring cost pressure.

Action Point 1

40. As already mentioned, financial balance has been achieved in part this year by managing the position using the sale of assets and slippage on projects. The Board is, therefore, using non-recurring funding to help meet recurring expenditure. While at times this is necessary, Boards should aim to be in recurring balance, and use non-recurring funding only for one-off items of expenditure. We note that the Board has plans in place to achieve this.

The issues arising from the audit

41. We reported the following main issues to the audit committee on 26 June 2007:

- **Prior Year Qualifications:** During 2006/07 we examined NHS Highland's accounting treatment for the Easter Ross Primary Care Resource Centre (ERPCRC). On the basis of the evidence provided to us, we concluded that the balance of the risks and rewards of ownership lay with the contractor. We therefore concluded that the PFI should be accounted for on an off-balance sheet basis.

  Resolution: For noting only

- **Change in accounting treatment of the New Craigs Hospital PFI:** NHS Highland has amended its accounting treatment in respect of the finance costs associated with the on balance sheet PFI at New Craigs. The Board is now complying with the accounting standard SSAP 21 in that it is accounting for the finance costs on an annuity basis, rather than a straight line basis as was the accounting treatment in prior years.

- However the accounting treatment for the prior years element, approximately £2.1m, has not yet been resolved. NHS Highland has accounted for this cost as an in-year adjustment and has not updated the prior year comparative figures. In our view, a prior year adjustment is required to recognise that there has been a change in accounting policy, and that the financial statements should be amended. This would be consistent with the requirements of FRS 3 and the Financial Reporting Manual (FReM).

- We consulted with the Scottish Executive Health Department (SEHD) on this matter and they advised that our interpretation is appropriate in this circumstance. We suggested a number of alternative methods of disclosure and both ourselves and the SEHD offered support to the finance department in processing any required adjustments, but these were declined. The

potential adjustments that we requested and the disclosures currently adopted by NHS Highland would ultimately have had the same effect on the reported financial position, but the Board's accounting treatment is inconsistent with accounting standards and regulations.

Resolution: The Board has decided not to amend its accounting treatment to comply with accounting standards and in our view there is an unadjusted presentational error of £2.1 million in the financial statements.

- **Raigmore Laundry Building:** NHS Highland has a finance lease for a laundry building at Raigmore Hospital which became operational in 2000. The lease covers a twenty five year period. The previous external auditors noted in their management letter that the Board was not accounting for this lease correctly, in accordance with SSAP 21 or the NHS Scotland Capital Accounting Manual.

- The Board's accounting treatment during 2006/07 now also runs counter to the accounting policy adopted for other finance leases, including the change in respect of the New Craigs PFI as noted in point seven. Consequently the Operating Cost Statement has been undercharged by a cumulative £314,000 since the facility became operational. If the current accounting treatment is not amended the error will peak at £592,000 in 2017, before returning to zero at the end of contract in 2026. In our view NHS Highland should amend its accounting treatment to fully comply with SSAP 21.

- NHS Highland has advised us that they do not intend to adjust their financial statements for this amount. While the error is not sufficiently material to impact upon our Auditor's Report this year, there remains a potential that it could in future years, dependent on the overall financial position.

Resolution: There remains an unadjusted error of £314,000 in the financial statements.

- **Capital Grants:** The NHS Scotland Capital Accounting Manual defines capital grants as: *"Unrequited transfer* payments *which the recipient has to use for the purposes of procuring or improving fixed assets from which the Health Board's residents will benefit in terms of achieving its objectives."* NHS Highland has disclosed £2.4 million as capital grants in the Summary of Revenue Resource Outturn.

- Capital grants represent a high profile entry on the face of the operating cost statement and should be planned and monitored in a structured manner throughout the year. All entries should be supported by detailed working papers which clearly support the classification of a capital grant in accordance with the CAM and FRS 15. However, in our experience NHS Highland did not adopt such an approach.

Resolution: Working papers were provided to support the Board's accounting treatment of capital grants and following discussions at the audit clearance meeting, it was agreed that a more robust process would be in place during 2007/08.

- **Agenda for Change Accrual:** NHS Highland has an accrual of £13.5m (£8.9m for the old NHS Highland board area and £4.7m for Argyll & Bute CHP) in respect of Agenda for Change payments for backdated pay. The comparative figure for last year was £8.1m (£5.3m for the old NHS Highland board area and £2.8m for A&B CHP element of old Argyll and Clyde area). There has therefore been a £5.4m (67%) increase between 2005/06 and 2006/07. Given that the AfC process has progressed by another year it would be expected that the size of this accrual would have increased, but the magnitude of this item suggests that a significant amount of staff still require to be assimilated and have their backdated payments processed. We have reviewed the accrual, but have requested a reference to this point in the letter of representation, asking for assurances from the Accountable Officer that the estimates in the financial statements are appropriate.

  Resolution: The Board has agreed to include a footnote in the notes to the accounts which separately identifies the Agenda for Change accrual. A reference will also be provided in the letter of representation.

- **Provisions**: Our review of documentation supporting the calculation of provisions identified that NHS Highland's share of the provision for pension costs in the former NHS Argyll & Clyde was fully held by NHS Greater Glasgow & Clyde. In 2005/06 NHS Argyll and Clyde had a closing balance on their Pensions Provision of £12.4m. The rationale in support of this approach was that it was not possible to separately identify the former employees and split them between Clyde and Argyll & Bute. Clarification was sought as to how the provision is now operating.

  Resolution: NHS Highland agreed to insert a footnote to the provisions note, explaining the current accounting arrangements.

- **Provisions – Clinical and Medical Negligence Claims:** The report received from the NHS Central Legal Office (CLO) detailing Clinical and Medical Negligence claims outstanding at 31 March 2007 included nine claims where the estimated value was stated as either £1 or £0. As the value of these claims does not yet appear to have been assessed by the CLO, there is a danger that provisions or contingent liabilities were understated.

  Resolution: We are advised that no further information in respect of these claims has been received from the CLO since the balance sheet date. Disclosure will remain unchanged.

- **Equal Pay claims:** The NHS in Scotland has received around 10,000 equal pay claims. NHS trusts in England recently settled equal pay claims for employees in traditionally female roles and similar claims have now arisen in the NHS in Scotland. NHS Highland should evaluate the financial impact of any of these equal pay claims and make appropriate disclosures in its financial statements. The NHS Central Legal Office are reviewing all claims received by NHS bodies on their behalf. To date they have been unable to provide an estimate of the likely financial impact of successful claims. We would expect that this will be quantified in the 2007/08 financial statements. A contingent liability in respect of potential equal pay claims from existing or former employees should be disclosed in the financial statements.

  Resolution: An unquantified contingent liability is now disclosed in the financial statements and a reference has been included in the Letter of Representation.

Statement on internal control

42. The Statement on Internal Control provided by the NHS Highland Accountable Officer reflected the main findings from both external and internal audit work. The Statement did not include any areas of internal control which needed to be strengthened.

PFI/PPP schemes

43. NHS Highland has three operational PFI/PPP schemes, two of which related to schemes in the former NHS Highland boundaries and the third inherited from NHS Argyll & Clyde. The details of the PFI/PPP schemes are as follows:

- the Easter Ross Primary Care Resource Centre at Invergordon was a redevelopment of a county hospital into a community resource centre. It now provides a community hospital and health centre. The twenty five year contract began in February 2005 and ends in January 2030. As noted previously, we conducted a detailed review of the Board's accounting treatment for the facility and concluded that it should be treated as off-balance sheet. The capital value of the project is £9.05 million and the Board pays the contractor £1.153 million per year. At the end of the contract ownership of the facility will revert to NHS Highland;

- New Craigs Hospital PFI in Inverness opened in July 2000 and the contract covers a twenty five period, finishing in June 2025. This facility is accounted for on an on-balance sheet basis and has a capital value of £14.425 million. The annual unitary charge is £1.922 million; and

- the third PFI/PPP within NHS Highland is the Mid-Argyll Hospital scheme in Lochgilphead, which was inherited following the dissolution of NHS Argyll & Clyde. The contract runs from June 2006 to May 2036 and the Board pays a unitary charge of £1.795 million. The capital value of the scheme is £19.2 million and is accounted for as off-balance sheet.

Performance Management

Introduction

44. This section covers our assessment of the way in which NHS Highland secures value for money in the use of its resources. This year we focused primarily on the management arrangements for Community Health Partnerships (CHPs) and related organisations.

Community health partnerships

45. As part of our risk based assessment carried out during the initial planning stage of the audit of NHS Highland we identified partnership working, specifically through Community Health Partnerships (CHPs), as an area for review in 2006/07. Our report focuses on the arrangements put in place by NHS Highland to develop partnership working in relation to health care services. CHPs are new organisations that were set up in April 2006 to develop community based health services in the Board area.

46. NHS Highland now has four CHPs following the inheritance of the Argyll & Bute area upon the dissolution of NHS Argyll & Clyde. The three other CHPs are North Highland, Mid Highland and South East Highland. As part of our review, we agreed with management to focus on the arrangements within two of the CHPs in order to develop a better understanding of working practices and allow for appropriate comparisons. Our review therefore focussed on the Argyll & Bute CHP and the South East Highland CHP.

47. A separate report will be issued on this work but the main findings from our review are:

Areas of good practice

- Governance arrangements are well developed within the CHPs. Each of the CHPs has appointed a chair and regular meetings are being held. The CHP committees are linked into the NHS Board through the NHS Highland Direct Health Services committee. This arrangement allows NHS Highland to report all aspects of performance including acute services, managed by the Special Services Unit (SSU).
- Following early concerns around delayed discharge performance, Argyll & Bute CHP actively engaged with Argyll & Bute Council to resolve the matter. CHP managers hold regular meetings with Council management and devised joint strategies for addressing this matter.
- The South East Highland CHP is exploring the use of collaborative contracting arrangements. A collaborative steering group has been established to review the possibility of devolving more of the budget to CHP level which better reflects patient activity at a local level.

- Financial management arrangements within the CHPs are well developed. Each of the CHPs has a dedicated CHP accountant and finance information is monitored throughout the year and reported to the committee on a monthly basis.
- Performance management arrangements in the CHPs mirror those in place across the wider NHS Highland. Versions of the balanced scorecard model were rolled out across the CHPs during 2006/07. Performance is reported to the committees at regular intervals.

Areas exposed to risk

- Service delivery models in the Argyll & Bute CHP differ from the other three CHPs. These differing arrangements increase the risk that the Board is not operating on a single system basis.
- Information sharing arrangements are being developed to reflect that the Board is now working with a range of new partners in Argyll & Bute. As part of this work NHS Highland's Data Sharing Partnership Board has embarked on a review of the Highland policy for sharing information.
- From our discussions we also noted that the majority of information sharing remains paper based and takes place on a case by case basis, except for Single Shared Assessments (SSA). A pilot project aimed at developing software that would facilitate electronic sharing of Single Shared Assessment data is underway. Challenges remain to find appropriate software applications that will enable capturing and sharing of information between NHS systems and the National *Multi Agency Store* MAS for purposes of the GIRFEC initiative.
- Highland Council is currently revising its organisational structure to reduce the number of areas and provide improved alignment with the CHPs. During this process, however there are increased risks around partnership working.
- The revised political structure of the two councils, following the recent elections, could take time to fully embed and there are increased risks to the continuity of partnership working arrangements during this period.

48. NHS Highland has embraced CHPs to deliver patient services and shift the balance of care from acute to community settings. We will continue to monitor the Board's progress in this area during the course of our appointment.

Performance management

49. The Scottish Executive Health Department introduced new delivery and performance arrangements for NHSScotland during 2005/06. One of the key building blocks of these new arrangements is the introduction of local delivery plans (LDP). The LDP focuses on a core set of objectives, targets and measures that reflect Ministers' key priorities for the Health portfolio. NHS Highland's corporate

objectives were approved by the Board at their meeting on the 7th February 2006 and the local delivery plan was presented and approved at their meeting on the 7th of March 2006.

50. A key component of the SEHD's new performance arrangements was the introduction of statutory HEAT (Health Improvement, Efficiency, Access to Services and Treatment) targets that all health boards are required to measure and report their performance against. To help monitor and report performance against these HEAT targets NHS Highland developed a balanced scorecard that splits the measures in to the 4 headings and assigns them with a traffic light grading depending on their performance against the target. These measures are reported to the board every second month at their performance focused board meeting. At the beginning of 2006/07 the scorecard was only utilised for performance within the old NHS Highland board area but this approach has now been extended to encompass performance for the whole of the new NHS Highland board

51. As part of the 2007/08 audit we will be reviewing the progress that NHS Highland. has made in strengthening their arrangements for securing Best Value. Over the next year we will also be developing and refining our approach to the audit of bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, this being one of the key auditors' objectives under the new Code of Audit Practice approved by the Auditor General. In turn, this will inform our ongoing work to develop our approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.

National studies

52. In 2006/07, Audit Scotland published three national studies:

- Informed to Care: Managing IT to deliver information in the NHS in Scotland (November 2006);
- Catering for Patients: A follow-up report (November 2006); and
- Planning ward nursing – legacy or design? (January 2007).

In December 2006 an overview report was published: Overview of the financial performance of the NHS in Scotland, and two publications to assist NHS Boards and their members were published:

- Health and community care bulletin (May 2006), a summary of the key findings from the 2005/06 national studies; and
- How the NHS works: Governance in Community Health Partnerships; a self-assessment tool (May 2006).

Informed to Care: managing IT to deliver information in the NHS in Scotland

53. This national study sought to provide a high-level overview of the national picture at a time when new structures were being put in place across the NHS (unified boards and community health partnerships), new staff contracts are being implemented, there is increasing joint working with other parties, such as local authorities, and there is increasing opportunity for innovation in service delivery and data management with developments in Information Management and Technology (IM&T).

54. The report concluded that 'Delivering for Health', published by the SEHD, signalled a more corporate approach for IM&T, with a shift away from local autonomy for strategic planning and associated decision-making, and that the SEHD recognised the need to review governance and management arrangements for IM&T throughout the NHS and was taking steps to improve them. Nevertheless there is still the need to develop an overarching information framework or strategy to inform the development of integrated IT solutions for the NHS in Scotland, taking account of all information needs and recent policy initiatives.

55. The report highlighted that NHS Scotland does not know how much it spends on IM&T overall, but recognises that it falls short of the Wanless target of 3-4% of total health spend and should it seek to do so the SEHD will have to consider the future funding of IM&T developments. It was felt that greater stakeholder engagement is required to ensure all information needs are effectively addressed, and, finally, best practice in identifying, monitoring and reporting expected benefits from IM&T projects has to be adopted consistently across the service.

Catering for patients – a follow up report

56. This follow-up study assessed progress in implementing recommendations made in a baseline report, published November 2003, in the areas of nutrition, quality, patient satisfaction, costs and management of the catering service.

57. The key findings were that catering services are offering an improved level of choice, there are improvements in collating the views of patients, there are improvements in associated management information systems and Boards have reduced the level of wastage.

58. However more work has yet to be done in the areas of: nutritional care of patients, conducting patient satisfaction surveys, and closer management of the level of subsidy for non-patient catering services.

Planning ward nursing – legacy or design? – a follow up report

59. This follow-up study assessed progress made in implementing recommendations made in a baseline report, published 2002, in the areas of: workload and workforce planning, recruitment and retention, the use of bank and agency nurses, information on the quality of nursing care, and information to inform workforce planning and management of resources at ward level.

60. The key finding was that the SEHD has made progress in addressing the recommendations, thus laying the foundations for better ward nursing workload and workforce planning in the future. A wide range of recruitment and retention programmes have been implemented, and dependency on agency nurses (ie external to the NHS) has reduced, whilst use of bank nurses (ie internal to the NHS) has increased.

61. Areas for further improvement were identified in respect of: management information on workload and workforce; planning establishment to take account of annual leave, average sickness cover, study time, protected time for senior nursing staff, etc; closer management on the use of bank nurses and the development of quality indicators.

Governance

Introduction

62. This section sets out our main findings arising from our review of NHS Highland's governance arrangements as they relate to:

    - clinical governance; and
    - corporate governance.

Clinical governance

63. NHS Highland's clinical governance arrangements continued to develop during 2006/07. The Clinical Governance Committee oversaw a number of new developments during the year, including the following:

    - Clinical Governance Strategy;
    - Clinical Effectiveness Strategy;
    - Complaints Policy; and
    - Incident Management Policy and Procedures;

64. In March 2007, NHS Quality Improvement Scotland (QIS) undertook a review of NHS Highland's compliance with the NHS Clinical Governance and Risk Management Standards. Initial feedback from QIS noted improvements from previous visits. We will review the final report in order to inform our audit in future years.

65. Clinical governance arrangements are embedded throughout the organisation. NHS Highland established clinical governance and risk management groups in each of the four CHPs and also in the Special Service Unit (SSU) and corporate services department. Plans for 2007/08 include inviting members of these committees to attend the Clinical Governance Committee to report on their progress. This is a positive step that will enable to the Committee to better understand developments across the organisation.

66. Clinical and corporate governance arrangements have been given due prominence during the year and the annual reports on these aspects of the Board's performance were presented to the audit committee to ensure they were subject to appropriate challenge and scrutiny.

Corporate governance

67. Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and the Board's financial position. We have made comment on the financial position at paragraphs 34 to 40.

68. We relied on the work of Internal Audit to give us assurance in these areas and we looked at two further specific areas of risk to see what governance arrangements were in place to manage them:

- financial position and financial management arrangements; and
- computer services review.

Financial position and financial management arrangements

69. During the year we carried out a review of the Board's financial position and financial management arrangements. This review, which was carried out across all NHS bodies audited directly by Audit Scotland staff, considered whether: financial planning was integrated with the overall strategic aims of the Board, the budget setting processes were robust; and there was adequate scrutiny of financial plans and budget monitoring undertaken across the Board.

70. To address those objectives we conducted interviews and reviewed documentation in respect of: planning and budgets, budget setting and budget monitoring, reporting and scrutiny, and, finally, forward planning. A separate report was issued on this work and the main findings from the review were:

Areas of good practice

- The Board has robust budget setting and financial planning arrangements in place which involves consultation with non-finance staff, including clinicians, and input from other key groups such as the Clinical Planning Group, Operational Teams and the Area Partnership Forum.
- During 2006/07 the Board has taken a proactive approach to reporting their underlying financial position and included details of this within the monthly area finance reports provided to Board members.

Areas exposed to risk

- There is a risk that local opposition to reductions in bed capacity will hinder the achievement of a significant element of the Board's savings plan; and
- The savings plan also requires fundamental changes in the way the Board provide their services that require buy in from clinical staff to be successful. There is therefore a risk that failure to

achieve support from clinical staff and other stakeholders will impact directly on the success of the plan.

Computer Services Review

71. As part of our risk based assessment carried out during the initial planning stage of the NHS Highland audit, we identified Information and Communication Technology (ICT) as a priority for review in 2006/07.

72. Our audit was carried out using a Computer Service Review (CSR) Client Questionnaire (CQ). Management also provided sample material and documentation in support of the CSR CQ. The main aim of the CSR CQ is to provide a high-level risk based assessment of ICT services. However, given the high-level nature of the review, the process cannot be relied upon to detect all of the strengths, challenges or risk areas that may exist.

73. A separate report was issued from this work and our main findings were:

- The Civil Contingencies Act (2004) places a number of duties on public sector bodies, including Scottish Health Boards, to ensure that they can continue functioning as far as reasonably practicable in the event of an emergency. The duty relates to all functions, not just their emergency response functions and includes risk assessment and business continuity planning. NHS Highland has not yet prepared a strategic plan that defines the overall approach to business continuity.
- The Board's reliance on eHealth as a critical component of service delivery necessitates that eHealth business continuity / disaster recovery planning forms a major part of the overall business continuity plan. Further, a risk management process has yet to be established to ensure that appropriate security measures and controls relating to information and IT assets are in place.
- NHS Highland has embarked upon a programme to improve information governance. It has the potential to establish a framework for the secure and confidential handling of information with appropriate quality standards expected of the Board.

74. We concluded that NHS Highland faces significant challenges in its plan to establish an organisational model that embraces all parts of the NHS Highland health area. The eHealth department is tactically designed for single system working, although there is a need to develop its risk management process to feed into the corporate-wide risk management process. The programme to improve information governance has the potential to improve the operational availability and security of information that could enhance front line service delivery.

National Fraud Initiative

75. In 2006/07 NHS Highland took part in the National Fraud Initiative (NFI) in Scotland. The Health Department and NHS Counter Fraud Services has 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 from internal arrangements for preventing and detecting fraud.

76. The NFI 2006/07 results (data matches) were made available to health bodies on 29 January 2007 via a 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.

77. In total 968 data matches were identified relating to NHS Highland employees. We consider that the Board failed to take a proactive approach to their involvement in the 2006/07 NFI process. The officer nominated by the Board to co-ordinate the investigation of these matches was changed during the process and there was little evidence that the matches identified had been appropriately followed up. This issue was raised at the Audit Committee on 29 May 2007 and assurances were given by management that all matches would be investigated fully and an update on the progress made would be provided to the Audit Committee meeting on 18 September 2007.

78. From review of the NFI reporting website we have been able to confirm that action is now underway to investigate all matches identified.

Action Point 5

Looking Forward

79. NHS Highland faces significant challenges in 2007/08 which include:

- The Board has continued to integrate the Argyll & Bute area into the wider NHS Highland. Harmonisation of policies and procedures continues and governance structures were established during 2006/07. Challenges for the Board remain in 2007/08 including the need to move to a single financial ledger, as the former NHS Argyll & Clyde ledger is still operated on behalf of the Argyll & Bute CHP by NHS Greater Glasgow & Clyde.
- The Board met its financial targets during 2006/07 and is projecting a break even financial position for 2007/08. In order to achieve this outturn it forecasts that it needs to make £11.7 million of savings, with £8.3 million on a recurring basis. This will be a challenging target to meet and requires to be supported by detailed plans.
- Successfully achieving of all the SEHD's HEAT targets is likely to remain challenging during 2007/08. The Board experienced difficulties in meeting its cancer waiting times targets during 2006/07 and has produced an action plan to improve its performance in this area.
- During 2006/07 NHS Highland received a significant amount of media coverage in relation to the problems experienced with the provision of NHS dental and orthodontic care within the Board area. Steps are being taken to address the shortage but this is likely to remain a high profile issue during 2007/08. We will continue to monitor developments.
- Modernising Medical Careers (MMC) could adversely impact on service delivery resulting from the amount of time required by staff to complete the new focussed training programme. There is also a potential financial impact for the Board as staff will now be able to qualify more quickly than was previously the case which will mean they are also able to move pay grades more quickly which will create a resultant cost pressure.

80. The Board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	The cost of the service level agreement with NHS Greater Glasgow & Clyde could be higher than those factored into the financial plan.	Detailed work is ongoing with the CHP, GGCHB and SEHD to finalise this matter, with the Financial Plan providing current best estimate.	Derek Leslie	Sept. 2007
2	Plans to deliver savings will be challenging and will require stakeholder support.	Close monitoring of savings plans and their delivery by DHS Management Team and Chief Operating Officer	Elaine Mead and Malcolm Iredale	Ongoing
3	The absence of a dedicated electronic HR system increases the risk that people management information does not support service planning.	Close linking with national work to progress development and implementation of integrated HR system, with maximum use currently being made of existing manual records and other systems.	Anne Gent and Malcolm Iredale	March 2008
4	The cost of equal pay claims could be higher than anticipated which would increase the risk to the achievement of the financial plan.	This is a national issue which is being monitored and actioned accordingly.	Anne Gent and Malcolm Iredale	March 2008
5	There is a risk that potential occurrences of fraud highlighted in the NFI data matches are not being fully investigated by the Board.	The follow up of appropriate matches and information is being progressed and appropriate actions taken accordingly.	Anne Gent and Malcolm Iredale	Dec. 2007