

NHS National Services Scotland

Report on the 2006/07 Audit



July 2007

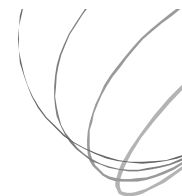


NHS National Services Scotland

Report on the 2006/07 Audit

Contents

Executive Summary	1	Performance Management	14
Introduction	3	Governance	17
Organisational Risks	4	Looking Forward	21
Financial Statements	9	Appendix A: Action Plan	22



Executive Summary

Introduction

Based on our analysis of the risks facing NHS National Services Scotland (NSS), in 2006/07 our audit work included: a review of governance arrangements, including the adequacy of internal audit and a Computer Services follow up review; a review of the Board's financial position and financial management arrangements; and a follow up review of workforce management. We audited the financial statements, including a review of the Statement on Internal Control. This report sets out our key findings.

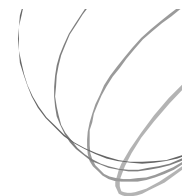
Financial statements

We have given an unqualified opinion on the financial statements of NHS National Services Scotland (NSS) for 2006/07. The Board carried forward a £5.077 million surplus from 2005/06 and planned to fully utilise this in 2006/07. The Board achieved a surplus of £1.700 million in 2006/07, which is an in-year movement against the RRL of (£3.377) million. This is mainly due to the inclusion of a provision of £8.5 million for the potential costs arising from the managed closure of the Protein Fractionation Centre (PFC).

*Table 1
Financial Performance*

	2006/07 £ Million	2005/06 £ Million
Net operating costs	333.601	298.422
Less capital grants to other bodies	-	-
Less Directorate of Computing & IT Strategy	43.329	32.567
Less Computer Development Capital Fund		7.592
Net resource outturn	290.272	258.263
RRL	291.972	263.340
Saving against RRL	1.700	5.077
Capital grants	-	-
Capital expenditure	29.470	21.885
Capital disposals (@ NBV)	0.650	0.007
Net capital expenditure	28.820	21.878
CRL	34.562	21.880
Saving/excess against CRL	5.742	0.002

Financial balance has been achieved in part this year by the slippage on some ring fenced projects and this was used to help fund the non recurring cost of closing PFC. However, commitment has been given by the SEHD that the actual costs of the PFC closure will be funded as they are incurred in 2007/08.



An efficient government savings target of £2.1 million was set for 2006/07 and was achieved and a target of £2.1 million has been set for 2007/08. However, this is a challenging target as NSS will need to monitor its income and expenditure position closely to ensure that it achieves breakeven without utilising non recurring funds to fund recurring expenditure.

Performance management

Performance management arrangements are developing across the organisation and NSS has appointed a Director for Strategic Planning and Performance Management and its performance management framework is in place. Arrangements were recently reviewed by NHS Quality Improvement Scotland (QIS) and they have concluded that NSS had a clear local delivery plan which shows a systematic approach to performance management albeit it required to demonstrate that its approach to performance management was being applied throughout the organisation.

NSS is progressing well on the planned actions identified in our Workforce Management Update Report. However, there has been further delay in fully implementing Agenda for Change.

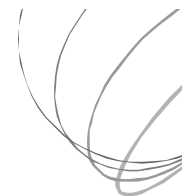
Governance

Clinical Governance arrangements have been further developed in 2006/07, particularly with the roll out of the clinical governance self assessment tool across the Divisions of NSS. The Clinical Governance Committee and the QIS reviewers have concluded that some Divisions require further support and guidance in recognising the relevance of clinical governance in their operations.

Risk management is incorporated into the corporate planning and decision-making processes of NSS. During 2006/07 risk assessments were carried out within each Division and monitored through the NSS wide performance assessment process.

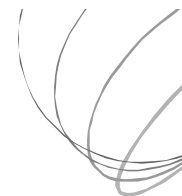
The organisation has had to respond to a critical situation in respect of its Protein Fractionation Centre and, after a period of consultation when no buyer was identified, has opted for a managed closure in line with the direction given by the (then) Minister for Health and Community Care. This, together with the sale of Alba Bioscience will pose continuing challenges to the organisation in 2007/08.

Audit Scotland
July 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of NHS NSS. The scope of the audit was set out in our Audit Risk Analysis & Plan, which was presented to the Audit Committee in February 2007. 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 consider the key issues we raised in this report. Each report set out our detailed findings and recommendations and NSS's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by the Board 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

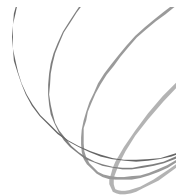
4. In our audit plan, we identified four main areas of risk for NSS. We also described longer term planning issues which would impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status.

Service sustainability

5. In our audit plan, we commented on the risks facing NSS in relation to the uncertainty, at that time, surrounding the future of the Protein Fractionation Centre (PFC) and Alba Bioscience. The Minister for Health and Community Care had given approval in June 2006 for NSS to explore the possibility of the sale of the PFC plant and to consider if the product range could be further developed in the private sector and for Alba Bioscience to be prepared for sale at an appropriate time. NSS undertook a process to identify a buyer for either one or both businesses and the results of this process were fed back to the Minister, who then wrote to NSS in February 2007 confirming that, since there was no buyer for PFC, there would be a managed closure of the plant during 2007. The Minister approved a Management Buy Out (MBO) of Alba Bioscience. At this time, NSS remains in negotiation with a preferred bidder.
6. The process of closure of the PFC is underway although an existing MoD contract remains to be serviced until December 2007. A number of risks require to be managed in this area, including staffing implications and the consequential impact on stock and asset values. The implications for stock and fixed assets have, however, largely been worked through as part of the 2006/07 final accounts process. We will continue to monitor developments in this area.
7. The arrangements for the sale of Alba Biosciences are also underway and it is anticipated that it will be concluded in summer 2007. The sale proceeds will fall to be recognised in 2007/08. We will again continue to monitor developments in this area.

Risk Area 1

8. Our audit plan also referred to the risks facing NSS in respect of the National Shared Support Services Programme whose development it manages. Risks centred around securing the support of NHS Boards, developing an effective programme and managing potential reputational risks relating to excessive project delay, or failure. The original Outline Business Case promoted a 'hub and spoke' system to deliver 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) was then developed for

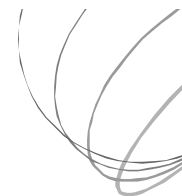


this model and was made available for consultation at the end of 2006. In responding to the FBC, NHS Boards were supportive of the overall principle of shared services and of the particular proposal to establish a unified core service function. Nevertheless, Boards expressed reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings.

9. The Shared Support Services Project Board met in February 2007 to consider the responses received and concluded that it would not proceed with the Draft Full Business Case in its current form. As a result, the project has now been re-launched as the Shared Support Services Programme. This involves a two-tier approach 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 new approach comprises a Foundation level of involvement, with all Boards developing common ledger arrangements, as well as Pathfinder initiatives 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 develop potential service solutions. The Programme is currently establishing the costs and benefits (economic and qualitative) of these two tiers of work.
10. This is a highly significant development for the NHS in Scotland which has experienced a major recent change in emphasis. It is estimated that a revised business case for the final organisation of shared services in NHSS will be available during 2008. Full system migration is presently estimated at March 2009. The intention underlying the change of approach is to reduce the risk profile through a distributed programme of projects to be delivered by Boards in support of the common goal. Auditors will continue to monitor the development of these arrangements and the management of related risks, which for NSS centre mainly around securing the endorsement of NHS Boards for the proposed solution.

Risk Area 2

11. Our audit plan drew attention to the risk relating to its role in leading National Procurement. In particular, as NSS now warehouses stock for a number of NHS Boards, it has taken on the risk of the management of stock which may result in NSS bearing any stock loss for these Boards. The recent fire at the Interim Distribution Centre was an example of this. The NSS response to this event is generally considered to have been well implemented but it underlines the need to ensure continuing robust risk management in this area. National Procurement has established itself as the first Centre of Expertise of Public Sector Procurement in Scotland and has also formed a steering group to deliver the recommendations of the McClelland Report. But it continues to face risks around the recruitment and retention of staff, management capacity and making effective linkages with local procurement organisations across the NHS.



Financial management

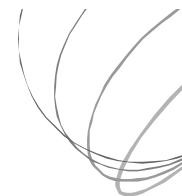
12. In our audit plan, we identified a number of financial risks for NSS. In addition to the general financial pressures facing all NHS bodies in Scotland, NSS faced a number of specific risks including those relating to the respective closure and sale of the PFC and Alba Bioscience, and also in relation to the range of key service contracts which were being re-negotiated during the year.
13. In addressing this we carried out a review of NSS's financial position and financial management arrangements. This area is addressed in the Governance and Financial Statements sections of this report.

People management

14. Last year the SEHD had set a revised deadline for staff to be assimilated of 31 October 2006 and this 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. In particular, the staff profiles within NSS do not readily match the standard AfC profiles due to the specialist nature of the staff employed by NSS. Assimilation rates for AfC are currently 62% which is reflected in the provision which is shown within the accounts (£10.575 million). This is a net increase of £2.4m (30%) from the previous year (2005/06 - £8.148m). This amount indicates that there are still a large number of staff due to be assimilated which has resulted in an increase in the provision as it covers the arrears of pay from October 2004, and that appeals have been lodged by a number of staff groups who have already been assimilated. However, arrears have also been paid for those staff already assimilated. Not all NSS staff have been assimilated by the revised timescale and the full financial implications of AfC cannot be accurately costed until further progress is made.
15. In our audit plan we highlighted the difficulty NSS has in attracting, and retaining, senior and specialist staff in key posts across the organisation despite having good flexible working arrangements. This is in part due to competition from the NHS in England and private sector organisations who may be able to offer higher remuneration than NSS. NSS has discussed options around salary flexibility with the SEHD although there have been no specific developments. This issue continues to present senior management with challenges in identifying a lasting resolution. In particular, a number of senior positions within the organisation are filled on a temporary basis. This poses a risk to NSS in delivering its complex workload and particularly to the range of significant national initiatives which are under its management.

Risk Area 3

16. During the year we also updated our work in relation to NSS's workforce planning activity. This work is summarised in the Governance section of this report.



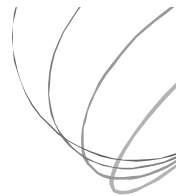
Equal pay claims

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. NSS, through its Central Legal Office, plays a significant role on the co-ordination of 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 and also for NSS; although it is worth noting that although NSS only has 4 claims we have not been able to obtain any estimate of the potential liability.
19. For 2006/07 we have accepted this position because of its stage of development and as a result of NSS 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 NSS 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.

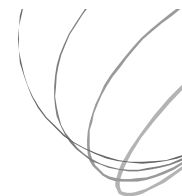
Risk Area 4

Information management

20. NSS manages a range of IM&T services used throughout Scotland including: the National IT Services contract (during 2006/07 this was outsourced to Atos Origin); the General Practice Administration System for Scotland (GPASS); the national data network and the Community Health Index (CHI). These systems underpin the delivery of NHSScotland's eHealth Strategy and are integral to the activities of all NHSScotland.
21. A consortium of internal NHS computer auditors, drawn from a number of NHS Boards and led by the Chief Auditor of FTF Audit and Management Services, performed a key role in reviewing the operations of the National IT Services contract during 2006/07. The consortium's review also covers security and business continuity arrangements for a range of applications including payroll and the CHI system. From our review of the work carried out by the consortium, and our own work, we concluded that NSS continues to perform its role in managing the core aspects of the NHSScotland National IM&T Infrastructure that supports the delivery of the vision set out in the NHSScotland eHealth Strategy.



22. NSS has also made progress in a number of related areas. In July 2006 the updated NHSScotland Information Security Policy was published as the standard to which all NHSScotland organisations should align when reviewing their own information security arrangements. To assist boards in assessing their progress in this area, NSS have provided an Information Governance Toolkit through which quarterly self-assessments will be made.
23. The relocation of the National IT Services primary data centre from Dundee to Livingston was concluded during the summer of 2006. Although there were concerns about service continuity through this transition, the programme board chaired by the Director of Finance/Deputy Chief Executive of NSS, were able to report the relocation concluded without any service disruption.
24. The National IT Services contract that has been in place since April 1999 came to a conclusion in March 2007, to be replaced by a new contract commencing in April 2007. Our Audit Risk Analysis and Plan identified service continuity during this transition between providers as a concern. Through a programme board, again chaired by the Director of Finance/Deputy Chief Executive of NSS, controls have been put in place to assure that this transition takes place with minimal disruption.



Financial Statements

Our responsibilities

25. 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.
26. 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

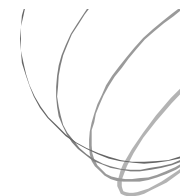
27. We have given an unqualified opinion on the financial statements of NHS National Services Scotland for 2006/07.

NSS's financial position

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

*Table 2
2006/07 Financial Targets Performance £ million*

Financial Target	Target	Actual	Variance
Revenue Resource Limit	292.0	290.3	1.7
Capital Resource Limit	34.5	28.8	5.7
Cash Requirement	310.0	296.7	13.3

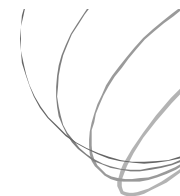


29. NSS has achieved a cumulative surplus of £1.7 million. As the Board carried forward a £5.077 million surplus from the previous year this means there was in an in-year movement of £ (3.4) million. The Board monitored the surplus position throughout the year and this has altered throughout the year due to suspension of manufacturing at the PFC plant which resulted in a write off of £4.347 million, the fire at the Interim Distribution Centre (IDC) which resulted in a write off of £2.59 million and the inclusion of a provision for the potential costs arising from the managed closure of PFC (£8.5 million). Attainment of the RRL target has largely been achieved through additional allocations received from the SEHD to cover items such as the fire at the IDC and slippage in spend against “ring fenced” allocations. NSS has identified that it has £10.5 million of ring fenced funding to be carried forward, therefore the underlying position is a deficit of £8.8 million. However commitment has been given by the SEHD that the actual costs of the PFC closure will be funded as they are incurred in 2007/08. Stripping out the application of this non-recurring/ring fenced funding out allows us to reflect the underlying recurring funding gap in NHS National Services Scotland for 2006/07, as illustrated below.

*Table 3
Funding Position 2006/07*

	£ Million	£ Million
Total expenditure	377.484	
Total RRL	291.972	
Underlying surplus/(deficit)		(85.512)
Additional allocation - HOCIT	43.329	
Slippage on ring fenced projects – to be carried forward	(10.533)	
Balance		32.796
Difference		(52.716)
Other income	43.833	
Non-recurring SEHD income/year-end support		
Corporate savings programme		
Total other income		43.833
Underlying financial surplus/(deficit)		(8.833)

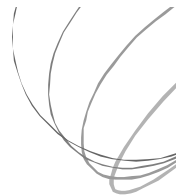
30. NSS’s 2006/07 financial plan included an internal efficiency savings target of £2.6 million to achieve financial balance. This figure is deducted from the baseline allocated to divisions and is not monitored as an actual target in itself as it is the baseline budget which is subject to continuous monitoring. It is noted that only two Divisions exceeded their baseline (SNBTS and PSD), this being the result of specific local circumstances in both instances.



31. NSS faces a challenging year in attempting to remain in financial balance. It is forecasting within the Local Delivery Plan a breakeven position for 2007/08 which includes £27 million of expenditure on ring fenced projects, some of which were subject to slippage in 2006/07. This plan also details that it will make efficient government savings of £2.087 million. In order to achieve these targets there will need to be close monitoring and control of income and expenditure in the coming financial year.
32. Agenda for Change continues to be challenging for NSS. As stated at paragraph 14, the staff profiles within NSS do not readily fit the standard AfC profiles due to the specialist nature of the staff employed by NSS. Assimilation rates for AfC are sitting at 62% which is reflected in the provision which is shown within the accounts (£10.575 million). This is a net increase of £2.4m (30%) from the previous year (2005/06 - £8.148m) and this reflects the position that another year of arrears has been accounted for and that some arrears have been paid out during the year.
33. NSS continues to experience significant non-recurring cost pressures arising from the managed closure of PFC. NSS are showing a provision of £8.5 million within the accounts for 2006/07 but commitment has been received from the SEHD that it will fund the actual costs of this closure as they are incurred.
34. The Board will have to revisit financial planning assumptions for 2007/08 and the longer term to reflect the impact of the 2006/07 actual results.

The issues arising from the audit

35. We reported the following main issues to the audit committee on 29 June 2007.
36. **Agenda for Change Provision:** NHS NSS has a provision amounting to £10.575m in respect of Agenda for Change. This provision is necessary to reflect anticipated costs which, as yet, have not been fully determined by NSS and covers the period October 2004 to March 2007. The methodology used to calculate the provision was based on the initial guidance issued by the Scottish Pay Reference Implementation Group (SPRIG). This was then adjusted by management to take account of the specialist nature of some job profiles within NSS and to reflect the greater risk associated with these posts. This amount represents a net increase of £2.4m (30%) from the previous year [2005/06 - £8.148m]. Given that the AfC process has progressed by another year, it would be expected that the provision would have decreased as more staff are assimilated and have their backdated payments processed. However, we note that there is still a large number of staff due to be assimilated which has resulted in an increase in the provision as it covers the arrears of pay from October 2004 and that appeals have been lodged by a number of staff groups who have already been assimilated. We have asked NSS for formal assurances, in a letter of representation, that the methodology used in determining the provision, in their judgement, best reflects anticipated costs.



Resolution: NSS has confirmed that, based on the information currently available, the methodology used best reflects anticipated costs. A reference is provided in the letter of representation.

37. **Cashflow Statement:** the Unified Board Accounts Manual states that NHS Boards should have a closing general fund creditor equal to the closing cash balance at the year-end. NSS's accounts vary from the guidance prescribed in the manual. The closing general fund creditor is shown as £1.326 million while the closing cash balance is shown as £1.979 million. There is a difference, therefore, of £653,000. Finance staff explained that NSS differs from territorial Boards in that its Office of the Paymaster General's (OPG) account balance includes £653,000 drawn down by NSS to fund payments made on behalf of NHS Boards to Primary Care Contractors. This amount is disclosed separately as a creditor due to the SEHD. This treatment of the FHS drawdown is consistent with previous years. We have asked finance staff to confirm that the SEHD are in agreement with the appropriateness of this accounting treatment.

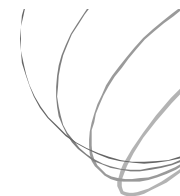
Resolution: Finance staff confirmed that the SEHD concur with this treatment for FHS Payments on Behalf.

38. **Equal Pay Claims:** The NHS in Scotland has received around 10,000 equal pay claims, although NHS NSS has only 4 cases to date. 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 NSS should evaluate the financial impact of any equal pay claims and make appropriate disclosures in its financial statements. The NHS Central Legal Office within NSS is 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 disclosed in the financial statements and a reference included in the letter of representation.

39. **Provisions for pensions and injury benefits – Use of discount rate:** NSS has used a discount rate of 2.8% in the calculation of this provision. The rate used was based on information originally received from the SEHD. However, this information differs from the HM Treasury prescribed rate of 2.2%. The majority of NHS Boards have now adopted the lower rate of 2.2%. We have calculated that provisions are, therefore, understated by c£240,000 and the surplus against the revenue resource limit by has been overstated by the same amount. We have asked the Department to clarify whether it remains valid to apply the 2.8% when this is at odds with the guidance applied elsewhere in the SE. NSS have again confirmed with the SEHD the advice originally provided.

Resolution: The position is under review and clarification is awaited from the SE Accounting Services Unit as to the discount rate to be used. Accept that 2.8 % used this year but this will be subject to national review in 2007/08.

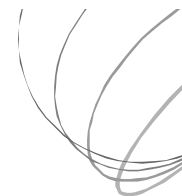


40. **Revaluation reserve:** The 2003/04 revaluation exercise resulted in some temporary revaluation reserve balances and guidance stated that balances would be considered temporary if they could be recovered in the short term. NSS's revaluation reserve includes a negative balance of £306,000 in relation to the Lauriston buildings. Discussion with management highlighted that consideration should be given to charging this balance to the Operating Cost Statement, since there was no evidence that it would recover within the next year. Management advised that a full valuation of the site will be undertaken next year.

Resolution: A full independent valuation of the site will be undertaken during 2007/08.

Statement on internal control

41. The Statement on Internal Control provided by the NSS Accountable Officer reflected the main findings from both external and internal audit work. The Statement refers to a number of processes developed during the year to further enhance internal control, including the continuing development of risk management processes, including a risk review workshop. Risk management also continues to be fully incorporated into corporate planning and decision making processes within NSS.
42. The Statement refers to areas of internal control that need to be strengthened, including:
- key documents such as policies, procedures and strategies were not easily accessible by all staff;
 - the Risk Management Strategy and Risk Management Framework were not updated in line with published review dates;
 - a number of Human Resources policies were not reviewed in accordance with planned timescales; and
 - whilst all NSS Divisions monitor strategic performance not all produce action plans.



Performance Management

Introduction

43. This section covers our assessment of the way in which NSS secures value for money in the use of its resources and provides background on Audit Scotland's wider coverage of performance management across the NHS.

Performance management

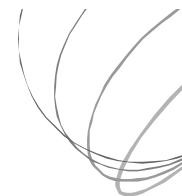
44. Performance management arrangements are developing across the organisation and NSS has appointed a Director for Strategic Planning and Performance Management and its performance management framework is in place. Arrangements were recently reviewed by NHS Quality Improvement Scotland (QIS) and they have concluded that NSS had a clear local delivery plan which shows a systematic approach to performance management. However QIS also noted that:
- insufficient information had been provided to demonstrate that NSS's approach to performance management was being monitored throughout the organisation; and
 - NSS had not yet demonstrated that it is monitoring its approach to performance management.

These will be important areas for NSS to review in 2007/08.

45. As part of the 2007/08 audit we will be reviewing the progress that NSS has made in strengthening its 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.

Workforce Management

46. During the year we carried out an update review on NSS's arrangements for workforce management. Our overall audit assessment is that a number of the key actions are being delivered, and that these actions are resulting in the planned outcomes. Where actions remain outstanding work is ongoing and revised target dates have been set. NSS is progressing well on the planned actions identified in the Workforce Management Update Report. However, there has been further delay in fully implementing Agenda for Change (AfC) and some assimilation work will be carried forward into 2007/08. The main areas of delay have been around the collation of Job Analysis Questionnaires and the processing of assimilation requests by the Job Evaluation Monitoring Group.



National studies

47. 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

48. 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).

49. 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.

50. The report highlighted that the NHS 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.

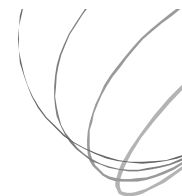


Catering for patients – a follow up report

51. 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.
52. 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.
53. 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

54. 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.
55. 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 (i.e. external to the NHS) has reduced, whilst use of bank nurses (i.e. internal to the NHS) has increased.
56. 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

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

- clinical governance; and
- corporate governance.

Clinical Governance

58. Clinical Governance within NSS is overseen by the Clinical Governance Committee which is a sub-committee of the NSS Board. It receives reports on aspects of the quality assurance of services likely to have an impact (direct or indirect) on patient care and provides regular reports to the NSS Board on relevant issues. The Committee met on five occasions in 2006/07.

59. Clinical Governance arrangements have been further developed in 2006/07, particularly with the roll out of the clinical governance self assessment tool across the Divisions of NSS. The Committee has been engaged in consideration of the clinical governance implications of the problems identified within the Scottish National Blood Transfusion Service in relation to the PFC and a report is anticipated early in the 2007/08 cycle. Two particular areas of ongoing concern have been noted for action, and these were borne out by Comments by NHS QIS in their recent review. We will continue to keep these areas under review:

- some Divisions require further support and guidance in recognising the relevance of clinical governance in their operations; and
- clinical risk required to be reviewed across the organisation with a view to embedding its centrality to corporate risk management.

Corporate Governance

60. Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and NSS's financial position.

61. We relied on the work of Internal Audit to give us assurance in relation to aspects of our governance responsibilities particularly those relating to systems of internal control. Additionally, we undertook a review of financial management and financial position, carried out a system migration review, updated



our previous work on our computer services review follow-up and workforce management. We also reviewed the work of the Service Auditor in respect of the Practitioner Services Division.

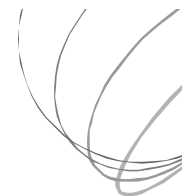
62. Risk management is incorporated into the corporate planning and decision-making processes of NSS. During 2006/07 risk assessments were carried out within each division and monitored through the NSS wide performance assessment process.
63. The Audit and Risk Committee oversees risk management. During the year the Committee also reviewed the output of Divisional and Corporate risk assessments. Our regular attendance at the Committee confirmed that this arrangement operated effectively.

Financial position and financial management arrangements

64. During the year we carried out a review of NSS's financial position and financial management arrangements. This review, which was carried out across all NHS bodies audited by 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.
65. 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.
66. Our report is currently in draft form and highlights a number of areas of good practice at NSS in terms of its planning, budgeting and reporting and some areas for development. Our report will be available shortly.

Computer services review

67. We reviewed progress towards addressing the risks identified in the Computer Services Review (CSR) prepared as part of our 2005/06 audit, and reported that progress has been made in most areas. The formation of the Corporate IM&T department in April 2006 has allowed NSS to rationalise a number of separate workstreams into two key IM&T infrastructure developments:
 - the Model Office programme that will deliver a standard computer desktop to all NSS staff regardless of location; and
 - the Hosted Only Server Relocation programme that will move all NSS critical servers to a managed data centre as part of the new National IT Services contract.



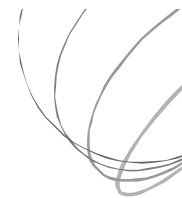
68. Progress has also been made towards implementing NSS-wide security standards. The NSS Information Security Policy has been refreshed to take account of the NHSScotland Information Security Policy published in July 2006, and an Employee Monitoring Management Standard that sets out the duties that NSS has in terms of protecting staff confidentiality while ensuring that all electronic activity is legal, have both been prepared. Formal adoption of these key policies remains outstanding, although the Employee Monitoring Management Standard has been presented to the NSS Policy Review Group for final endorsement.
69. In a related instance a fire at the Interim Distribution Centre required NSS to exercise its Business Continuity and Disaster Recovery plans in a real situation. This has provided increased assurance that NSS are capable of handling disaster scenarios. Increased management focus arising from this incident continues to strengthen controls in this area.

E-Financials - review of system migration planning

70. During the year, NSS had plans in place to replace its 'Integra' ledger system with the eFinancials ledger system and eFinancials went live in May 2007. We reviewed the controls that NSS had in place to assure a successful and timely transition, and reported that, in general, good project governance arrangements were in place. We did highlight, however, that although the project timescale was challenging contingency arrangements to guarantee continued service in the event of an unsuccessful transition were not formalised at an early stage of the programme.

Practitioner Services Division – Service audit

71. The Practitioner Services Division (PSD) of National Services Scotland is responsible for calculating and making payments to primary care contractors on behalf of each Health Board. Payments to primary care contractors account for more than 20% of the total health expenditure in Scotland.
72. NSS appointed PricewaterhouseCoopers (PwC), as Service Auditor, to carry out a detailed Faculty of Information Technology (FIT) 1/94 review of this area. Their review provides assurance on the controls environment for processing practitioner data and paying primary care contractors. The report produced by the Service Auditor provides assurance on the control environment within PSD. It concluded that there were 61 outstanding control issues although only 33 of these are new issues identified in 2006/07. There were no 'business critical' issues identified in 2006/07 and the number of new high priority issues has remained at five in the current year. Our review (summarised to other external auditors of Health Boards) concluded that we could place reliance on the work of the Service Auditor and that NSS continues to perform its role in managing payments to NHS practitioners.



National Fraud Initiative

73. The National Fraud Initiative (NFI) was extended to cover the National Health Service in Scotland by HDL (2006) 44. The NFI is a biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies and on various financial systems to identify potential fraud, error or anomalies for investigation.
74. Under the NFI, payroll data is downloaded and provided to the Audit Commission's NFI appointed auditor (who process the data for Audit Scotland) who matches this information against other data sets such as housing benefit applicants, local authority pensioners, students, deceased persons, etc. The results are passed back to Boards for further investigation and analysis. Within the NHS in Scotland, Counter Fraud Services also play a role in considering the implications of cross matching between the Community Health Index (CHI) and other relevant sources. This work is at an early stage and we will monitor the results of this useful analysis.
75. Auditors are required to monitor the Board's progress in implementing the National Fraud Initiative and we undertook this as part of our audit. The results of our review were that a limited number of queries were raised through the NFI matching process. These minor queries are being progressed by the key NFI contact.

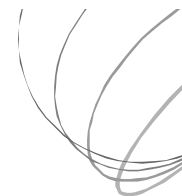


Looking Forward

76. NSS faces significant challenges in 2007/08 which include:

- Bringing to a successful conclusion the managed closure of the PFC and the sale of Alba Bioscience;
- Continuing to move forward with the development of the National Shared Support Services Programme, including a functional core system design, and ensuring appropriate buy-in from user Boards;
- In general addressing the management challenges of simultaneously developing a range of national initiatives including National Shared Support Services, as above, and National Procurement - Logistics;
- Addressing current staffing issues, including the finalisation of Agenda for Change and addressing current issues on staff recruitment and retention;
- Implementing and consolidating the work of the national IM&T contract with the new partner – ATOS Origin Alliance which comprises BT/IBM/Atos Origin and the Sopra Group; and
- Ensuring the extension of its arrangements for clinical governance and performance management across all Divisions of the organisation.

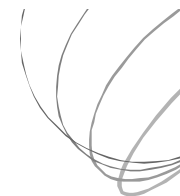
77. The Board of NSS recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.



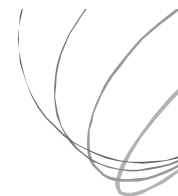
Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	The managed closure of the PFC and the sale of Alba Bioscience will continue to pose management with challenges in relation to staffing issues and asset values	<p>SNBTS – Asset Values</p> <p>An Executive team, Project Pearl Implementation Group (PPIG), was set up to take forward and oversee the plans for the sale of Alba Bioscience and the managed closure of PFC.</p> <p>There are a number of project groups in existence to address all issues associated with these programmes of work.</p> <p>These are well developed and final stage action plans & associated risk registers are in place and being implemented. These are subject to regular review and progress monitoring by PPIG.</p>	Keith Thompson	Dec 07
		<p>HR – Staffing</p> <ul style="list-style-type: none"> Alba sale presents significant challenges, which we are confident, will be appropriately managed up to transfer. PFC presents a significant challenge, which is well managed through robust governance and project planning methodologies reported regularly to Board Sub Groups. A robust workforce plan supports downsizing, using redeployment and other exit strategies. Investment in joint implementation groups, and other Partnership groups, has enabled Partnership working with Trade Unions to be exceptional throughout the challenging process. 	Chris Murphy	<p>Aug 07</p> <p>As per project plan</p> <p>As per project plan</p> <p>As per project plan</p>



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
2	<p>The future development of the renewed National Shared Support Services Programme continues to provide challenges to NSS. Major further delay or lack of support for the project may lead to reputational risk for the organisation</p>	<p>The intention underlying the change in approach in the renewed programme is to reduce the risk profile through a distributed programme of projects to be delivered by Boards in support of the common goal. The central Team and the governance structure of the Programme are being reviewed to:</p> <ul style="list-style-type: none"> • reflect the shift in emphasis to Health Boards taking the lead in delivering the next phase through a programme of local projects supported by the Programme team; • broaden the governance arrangements to reflect the delivery of projects in the 22 Health Boards and at the same time streamline the governance structure at Programme level, consistent with the Programme moving into an implementation phase; • ensure appropriate and compatible governance structures are in place at a corporate Programme and local Health Board/Consortia Project level; • ensure those enabled to make key decisions and those required to undertake detailed work are engaged in the Programme at an appropriate level; • maintain provision on a Supplier/Customer relationship throughout the Programme, with the Supplier being the Programme Ream and any supporting agencies, and the Customers for the final products being the individual Health Boards, including Partnership representation; and 	Scott Haldane	<p>New approach to be approved by NSS Board and Programme Board in August 2007 and by Health Boards and the SEHD thereafter.</p>



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
		<ul style="list-style-type: none"> ensure consistency of approach and knowledge sharing across NHSS. <p>The new arrangements will maintain high levels of controls assurance input to the Programme covering the Programme's deliverables (new processes etc.) and the overall Programme Management (e.g. 'Gateway' reviews).</p>		
3	Further delay in finalisation of Agenda for Change, and a lack of resolution to current recruitment and retention issues, may lead to difficulties in delivering NSS's complex series of national initiatives, as well as core work.	<ul style="list-style-type: none"> A recruitment strategy is being developed which includes differing models of employment based upon: <ul style="list-style-type: none"> Agenda for Change impact assessment; Workforce Development Plan; and Effects of the HDL on senior managers pay. National Initiatives will continue to be taken forward, using project methodology, as developed through the CPO. 	Chris Murphy	1 st draft Dec 07 Ongoing basis
4	NSS, particularly the CLO, needs to work with the SEHD and other Boards to clarify issues and potential costs relating to equal pay claims in the NHS in Scotland.	<p>A project structure and process has been put in place to ensure a pan Scotland approach in addressing this issue. An NSS dedicated post has been established within the Employee Relations are which is undertaking audit work and developing legal knowledge based on best practice.</p> <p>An equal pay unit has been set up for Scotland with links across all Health Boards with the methodology facilitated by the CPO.</p>	Chris Murphy	Project methodology and governance structure in line with project plan July 07