

# NHS Grampian

Report on the 2007/08 Audit



July 2008



# NHS Grampian

**Report on the 2007/08 Audit**

# Contents

<b>Executive Summary</b>	<b>1</b>	<b>Governance</b>	<b>18</b>
<b>Introduction</b>	<b>3</b>	<b>Looking Forward</b>	<b>24</b>
<b>Financial Position</b>	<b>4</b>	<b>Appendix A: Action Plan</b>	<b>26</b>
<b>Performance Management</b>	<b>12</b>		



# Executive Summary

## Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by NHS Grampian. We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

## Financial position

The Board carried forward a surplus of £6.3 million from 2006/07 and planned to reduce this to £5.0 million in 2007/08. However, the Board was able to improve on this plan by achieving a cumulative surplus of £6.4 million at 31 March 2008 which means that there was an in-year surplus of £0.1 million.

This financial position has been achieved due to vacancies and late allocations of earmarked funding from the Scottish Government Health Directorates. The Board is therefore using non-recurring funding to meet recurring expenditure. While at times this is necessary, the Board should aim to be in recurring balance, and use non-recurring funding only for one-off items of expenditure or specific projects.

The Board's financial statements include significant provisions, particularly in respect of Agenda for Change payments, and do not reflect any potential liability for equal pay claims. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any under-estimate of costs in 2007/08 could have a significant impact in future years.

The Board's Five Year Financial Plan 2008/09 to 2012/13 envisages an in year surplus for 2008/09 of £1.6 million, producing a cumulative surplus at 31 March 2009 of £8.0 million. This surplus has been planned in order to accumulate a balance for future years when uplifts to funding are expected to be significantly lower and financial pressure around pay and service redesign are expected to continue.

## Financial statements

We have given an unqualified opinion on the financial statements of NHS Grampian for 2007/08.

We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## Performance

Overall, we found that the Board recognises the importance of maintaining a rigorous system of performance management throughout the organisation.



NHS Grampian met specific targets set out in the Local Delivery Plan for 2007/08 for inpatients, day cases and outpatients, with the exception of compliance with the four hour accident and emergency target which slipped below the target level due to pressures over the winter. Full delivery of zero delayed discharges over six weeks by April 2008 was achieved, although this was particularly challenging and ongoing sustainability will be a potential risk. A further significant risk for NHS Grampian is the potential shortfall of funding for additional investment required to support achievement of waiting times targets.

## **Best Value**

In 2005/06 we carried out a baseline review of Best Value arrangements across the health service including NHS Grampian and an improvement action plan was agreed. A follow-up review was carried out in 2007/08 and we found that the Board had made progress with all the agreed actions. A number of key developments are currently underway to assist in embedding Best Value principles within NHS Grampian. We also applied a Best Value, Use of Resources, pilot toolkit, covering Financial Management in 2007/08 and our work in this area is ongoing. We plan to submit our detailed report in August.

## **Governance**

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for NHS Grampian operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment and concluded that they operated sufficiently well to enable us to place reliance on them.

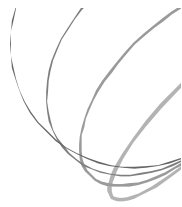
Clinical governance arrangements have been developed during the year with the integration of Clinical Governance and Risk Management into a single unit and an ongoing review of sector clinical governance arrangements.

## **Looking forward**

The final part of our report notes some key risk areas for NHS Grampian going forward. These are significantly centred around future funding and include the challenges of delivering on waiting time targets, delivering efficiencies and managing a very extensive capital programme, all in a period of expected lower uplifts in allocations. National issues around Equal Pay claims and changes to accounting procedures will all provide challenges in future years.

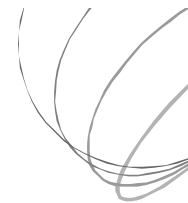
The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

**Audit Scotland**  
**July 2008**



# Introduction

1. This report summarises the findings from our 2007/08 audit of NHS Grampian. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 18 December 2007. This plan set out our views on the key business risks facing the organisation 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 NHS Grampian 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](http://www.audit-scotland.gov.uk).



# Financial Position

4. In this section we summarise key outcomes from our audit of NHS Grampian's financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

## Our responsibilities

5. 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
  - the consistency of the information which comprises the management commentary with the financial statements
  - the regularity of the expenditure and receipts.
6. 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
  - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

## Overall conclusion

7. We have given an unqualified opinion on the financial statements of NHS Grampian for 2007/08.
8. As agreed the unaudited accounts were provided to us on 29 April 2008, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from NHS Grampian staff allowed us to conclude our audit within the agreed timetable.



## The Board's financial position

### Outturn 2007/08

9. NHS Grampian is required to work within the resource limits and cash requirement set by the Scottish Government Health Directorates (SGHD). NHS Grampian's performance against these targets is shown in Table 1 below.

**Table 1**  
**2007/08 Financial Targets Performance £ million**

<b>Financial Target</b>	<b>Target</b>	<b>Actual</b>	<b>Variance</b>
Revenue Resource Limit (RRL)	729.2	722.8	6.4
Capital Resource Limit (CRL)	29.1	29.1	-
Cash Requirement	746.1	746.1	-

10. In order to remain within the RRL target the Board has relied upon an underspend on pay costs (which arose due to difficulty recruiting and retaining staff); effective service redesign and late allocations of earmarked funding from the SGHD. Also significant was a windfall financial benefit of some £3 million arising from national pricing negotiations on prescription drugs, most of which was used for essential non-recurring expenditure on priority backlog maintenance work across the estate and progress with reducing a backlog of inpatient activity.
11. NHS Grampian carried forward a £6.3 million surplus from the previous year and financial plans for 2007/08 assumed an in-year deficit of £1 million with a £5 million accumulated surplus carried forward into 2008/09. During the year, NHS Grampian revised its financial plans to reflect an anticipated cumulative year end surplus of £6.0 million. The final year end outturn showed an in year surplus of £0.1 million. NHS Grampian therefore has achieved a cumulative surplus of £6.4 million. Where non-recurrent income has been used to support recurring expenditure it will have to be re-provided in future years. Adjusting for the application of this non-recurring funding allows us to reflect the underlying recurring funding gap in NHS Grampian for 2007/08, as illustrated below.





**Table 2**  
**Funding Position 2007/08**

	£ Million	£ Million
Recurring income	839.5	
Recurring expenditure	851.0	
Recurring savings	5.4	
Underlying Recurring Surplus/(Deficit)		<b>(6.1)</b>
Non-recurring income	22.5	
Non-recurring expenditure	17.3	
Non-recurring savings	7.3	
Non-recurring Surplus/(Deficit)		<b>12.5</b>
Financial Surplus/(Deficit)		<b>6.4</b>

12. While reliance on non-recurring sources of funding has been reduced, from £21 million in 2006/07, to £6 million in 2007/08, the Board should aim to be in recurring balance and minimise reliance on non-recurring income to pay for day-to-day running costs.
13. NHS Grampian's 2007/08 revenue budget included a £20.7 million savings target to achieve financial balance. This total was exceeded by some £0.5 million, however as Table 3 below shows this was mainly as a result of non-recurring savings.

**Table 3**  
**Savings programme 2007/08 £ Million**

	Budget	Actual	Variance
Recurring	17.7	13.8	(3.9)
Non-recurring	3.0	7.4	4.4
Total	20.7	21.2	0.5

### **2008/09 Budget**

14. NHS Grampian's Revenue Budget for 2008/09 envisages an in year surplus for 2008/09 of £1.6 million, taking the cumulative surplus at 31 March 2009 to £8.0 million. Building up a projected cumulative surplus is seen as essential in order to meet the expected financial pressures in 2009/10 and beyond, including lower funding uplifts than in the period to 2007/08 and increasing cost pressures for pay, drugs costs, capital charges and providing funding to enable significant service redesign. The three year NHS pay deal will create significant pressure for the Board necessitating higher levels of efficiency and productivity.



15. A significant risk to NHS Grampian for 2008/09 is the potential shortfall in funding for improving access times. Some £6.0 million has already been committed by NHS Grampian to build capacity that is essential to meet the shortening timescales for access times. Funding allocations are expected to be received to match this commitment; however there is no guarantee that some or all of this funding will be made available.
16. Other risks for NHS Grampian include: the build-up of significant sums of targeted funding from the SGHD, which remain uncommitted, thereby masking the underlying financial position of the Board; and the requirement to deal with significant backlog maintenance issues resulting from an ageing physical infrastructure.
17. The 2008/09 budget includes a requirement to achieve a total savings target of £26.2 million. This level of savings is slightly higher than has been achieved by NHS Grampian in the past and will require careful management throughout the financial year. The 2008/09 savings target includes the requirement from the SGHD for all Health Boards to make an additional 2% recurring saving for each of the financial years 2008/09 to 2010/11. Although NHS Grampian has exceeded its savings targets in the past, this has been achieved largely on a non recurring basis, due to vacancy management and asset sales. The challenge for NHS Grampian in the future is to deliver savings on a recurring basis as reliance on vacancy management is not sustainable in the longer term due to the pressure on existing staff. Furthermore, this could have serious consequences for service delivery. NHS Grampian do not anticipate that the Change and Innovation Programme will provide significant revenue savings in 2008/09.

#### **Risk Area 1**

18. NHS Grampian are proposing to take forward three significant capital projects over the next 5 years, the Emergency Care Centre (£98 million), the Ambulatory Care Centre (£42 million) and the Aberdeen Health Village (£37 million). These projects are seen as being vital to shifting the balance of care away from the traditional hospital setting whilst simultaneously eliminating the highest risk backlog maintenance issues. The current draft 5 year Capital Plan shows that NHS Grampian will have an accumulated capital overspend of £25 million by March 2013. NHS Grampian's Local Delivery Plan for 2008/09 has not yet been agreed with the SGHD as a result of this level of anticipated overspend. There is a risk that the SGHD do not approve these plans.
19. There is a risk that NHS Grampian are unable to spend their full capital budget of £56 million in 2007/08 due to both a lack of capacity in the construction industry within the Grampian area as well as the Board's inability to recruit dedicated project managers.

#### **Risk Areas 2 & 3**



## Issues arising from the audit

20. As required by auditing standards we reported to the audit committee on 24 June 2008 the main issues arising from our audit of the financial statements. The key issues reported are outlined in paragraphs 21 to 27.

21. **Agenda for change provision.** As at 31 March 2008, £26.7 million was accrued in respect of agenda for change payments. This figure has largely been arrived at by estimation, based on NHS Grampian's assumptions and refers to a range of staff posts and grades. Included within the figure is an amount of £17 million for the outcome of appeals from employees who are dissatisfied with their initial grading. We asked the Board for formal assurances, in a letter of representation, that the provision, in their judgement, represents a prudent estimate of anticipated costs

**Resolution:** Management confirmed in the letter of representation that the methodology adopted best reflects anticipated costs.

22. **Equal pay claims.** NHS Trusts in England have settled equal pay claims for employees in traditionally female roles and similar claims have now been received by Boards in Scotland. As at 31 March 2008, NHS bodies had received some 12,000 claims and these had been referred for attention to the Central Legal Office. It is possible that these claims represent a current liability for NHS boards generally. By the end of March 2008, NHS Grampian had received 404 claims under the Equal Pay Act. We were informed by Finance staff that NHS Grampian is aware of the potential risk posed by equal pay claims but at this stage it is not possible for the Board to make an estimate of any financial impact that may arise. An unquantifiable contingent liability has been included in the accounts for 2007/08. We asked the Board to confirm this view in the letter of representation.

**Resolution:** An unquantified contingent liability is included in the accounts and reference has been made in the letter of representation.

23. **Negative revaluation reserves:** We identified a number of assets whose revaluation reserve balances are insufficient to offset the reduction in asset values arising from revaluation thereby resulting in some negative revaluation reserve values. Relevant guidance indicates that this is reasonable in the short-term where fluctuations can be attributed to temporary price changes. Where no evidence of recovery can be provided, an appropriate charge would require to be made to the Operating Cost Statement. Finance have reviewed the affected assets and are of the opinion that the initial price changes are still considered temporary in nature and that this issue will be resolved under the 5-year rolling programme of professional valuations.

**Resolution:** Appropriate disclosure has been made in the letter of representation that the initial price changes are still considered temporary in nature.



24. **Open Market Valuation for surplus land:** Surplus land at Seaton Clinic has been included in the accounts at an Open Market Value of £187k. Although this is in accordance with SGHD guidance we have not been presented with independent evidence to support this figure. The land is being sold jointly with Aberdeen City Council and we were informed that a professional valuation was not available at the time of our audit.

**Resolution:** Copy of the professional valuation report to be made available and appropriate disclosure in the letter of representation.

25. **Waste Electronic and Electrical Equipment (WEEE) Regulations:** the WEEE Regulations came into force on 1 July 2007 and aim to minimise the impact of electrical and electronic goods on the environment by making producers and/or users responsible for the costs of disposal of such goods. In accordance with the regulations, where their relevant waste arises from assets obtained prior to 13 August 2005, boards will be responsible for the costs of collection, treatment, recovery and environmentally sound disposal of waste equipment disposed of after 1 July 2007, unless they are purchasing a direct replacement. NHS Grampian may have an obligation resulting from the introduction of these regulations. We were informed by Finance staff that NHS Grampian is aware of the potential risk posed by the introduction of the regulations but at this stage it is not possible for the Board to quantify this risk. An unquantifiable contingent liability has been included in the accounts for 2007/08. We asked the Board to confirm this view in the letter of representation.

**Resolution:** An unquantified contingent liability is included in the accounts and reference has been made in the letter of representation.

26. **Grouped assets:** The Capital Accounting Manual allows for the capitalisation of groups of assets where more than one item of a similar, or functionally independent, nature would individually fall below the de minimus capitalisation threshold of £5,000. This approach is more likely to apply, for example, to the purchase of a large number of low value items of equipment expenditure which would result in an exceptional charge to the Operating Cost Statement in the first year of a new hospital. In these circumstances, health bodies have the option to capitalise such expenditure as a single 'equipping' asset and should consult with the SGHD. We have identified a number of instances of grouped assets which may not meet these requirements, for example £574k for laboratory equipment and £11k for communication aids. We were informed by Finance staff that they had not consulted with the SGHD as this treatment was consistent with prior years. However, they have informed us that this issue will now be raised with the SGHD. We asked the Board to provide more details for the items we identified and the rationale for treating these as grouped assets.

**Resolution:** The Board provided the requested information and is to discuss the issue with the SGHD.

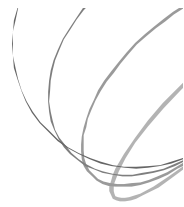


27. **Pension provisions:** Due to the fact that the Scottish Public Pensions Agency did not advise Boards of the amounts due for payments relating to early retirement costs, the accrual includes an estimation. NHS Grampian estimated the accrual using the most recent data received as a base and 3.6% uplift has been included. We asked the Board for formal assurances, in a letter of representation, that the accrual represents a prudent estimate of anticipated costs.

**Resolution:** Appropriate disclosure in the letter of representation.

## Equal Pay Claims

28. 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 taken forward by the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. In the UK the Equal Pay Act 1970 is seen as fulfilling Britain’s obligations in relation to equal pay. The National Health Service in Scotland has received a number of claims for equal pay in which additional back pay is sought , arising from the requirement for equal pay. The NHS Central Legal Office (CLO) is instructed by the Management Steering Group of the NHSScotland and co-ordinates the legal response of NHSScotland to this issue.
29. For 2006/07, we accepted that no estimate of the potential liability for these claims could be identified because of the stage of development and as a result we agreed to the inclusion of a contingent liability within the NHS Grampian financial statements. We strongly encouraged NHS Grampian management, working with the Scottish Government Health Directorates and other NHS Boards, to resolve this matter in advance of compilation of the 2007/08 financial statements.
30. The CLO has co-ordinated the legal response to all claims and has attended Tribunal Hearings at which discussion about procedural matters has taken place. The CLO affirms that the cases in Scotland are at too early a stage to allow any assessment of financial risk to be included in the financial statements.
31. A number of issues contribute to this uncertainty, these include:
- certain recent applications incorporate a challenge to the Agenda for Change system, stating that it is, in itself, discriminatory and perpetuates discrimination. This allegation is made in terms of section 77 of the Sex Discrimination Act and seeks to bring all those who were signatories to the Agenda for Change Final Agreement into the proceedings, including Unison and GMB. This allegation of discrimination needs to be legally tested
  - claimants also seek to identify whether or not the Scottish Government or Health Boards is/are responsible for all the claimants’ terms and conditions relating to pay. This is often referred to as the “single source issue”. If this issue is actively pursued by the claimants, then it will require to be legally tested.



32. We note the CLO's current view of the stage the cases have reached but strongly encourage NHS Grampian management, working with the Scottish Government Health Directorates and other NHS Boards, to form a view of the potential liabilities as soon as practicable taking into account the progress of cases in Scotland and in England.

## Regularity

33. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



# Performance Management

34. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
35. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.
36. This section covers our assessment of the way in which NHS Grampian secures value for money in the use of its resources. This year we focused primarily on examining the arrangements for Best Value through a follow up to the baseline review we carried out in 2005/06 and reviewing the arrangements for Best Value, Use of Resources, focusing on financial management.

## Performance Management

### *Local Delivery Plan*

37. The Local Delivery Plan (LDP) is the key agreement between the NHS Board and the SGHD that describes and demonstrates how the Board will deliver improvements against the 4 key ministerial objectives of Health, Efficiency, Access and Treatment. NHS Grampian's performance against a number of key Local Delivery Plan (HEAT) targets in 2007/08 is as follows:
  - uptake of childhood vaccinations continues to rise with the target of 95% MMR vaccination (at age five years) delivered consistently throughout 2007/08
  - overall absence rates vary between 4-6% but the Board remain committed to delivering the national target of 4% by March 2009
  - a number of key access targets were met in full by December 2007 deadlines, including no patient waiting longer than eighteen weeks for inpatient or day case treatment or first outpatient appointment
  - percentage of accident and emergency cases treated and discharged within four hours in December to March fell just below the 98% target due to pressures over the winter
  - target for no patient delayed discharge from hospital in excess of six weeks by 15 April 2008 has been achieved. This target has been particularly challenging and ongoing sustainability will remain the focus for 2008/09.



38. The 2008/09 LDP is considerably different from previous years with more than half the measures/ targets changing in some way and a number of measures converted to 'standards' which Boards must deliver on an ongoing basis, for example, zero delayed discharges of more than six weeks. Successful delivery of several of the targets/standards will continue to be dependent on the availability of Local Authority funding to support areas of joint working. Budget pressures facing Local Authorities themselves creates the main financial risk as resources previously received by the Board, to address delayed discharges, is to be allocated to local authorities from April 2008. As this will not be ring fenced there is a risk that this resource will not be available.

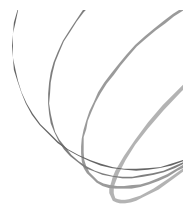
### ***Performance monitoring arrangements***

39. Overall scrutiny of all aspects of performance is undertaken by the Board's Performance Governance Committee (PGC) using the 'Citistat' principals, known in NHS Grampian as 'Healthstat'. Each meeting focuses on 2 or 3 key performance areas or areas where there has been a recent fall in the expected level of performance. Our attendance at the PGC confirmed that the Committee operated in an effective manner.
40. In addition to the high level reviews undertaken by the PGC, NHS Grampian have also implemented similar monthly reviews at an operational level known as Cross System Performance Reviews (CSPRs).
41. Overall, the Board recognises the importance of maintaining a rigorous system of performance management throughout the organisation. A recent internal audit review of the CSPR process concluded that combining the strengths of the existing framework and the Citistat approach has delivered a more effective performance management system providing appropriate scrutiny whilst supporting a culture of continuous performance improvement.

### **Best Value developments**

42. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.
43. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.





44. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources; and with an evolutionary implementation.
45. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.
46. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a sample of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.
47. The first of these toolkits, which covers Financial Management, was piloted in NHS Grampian during 2007/08. The review sought to establish the Board's position in relation to:
  - financial governance and leadership
  - financial and service planning
  - finance for decision making
  - financial management and control
  - financial reporting.
48. Our work in this area is ongoing, although we have established that the Board's arrangements appear to be soundly based. We plan to submit our detailed report in August, drawing upon examples of good practice across the NHS in Scotland.
49. In 2005/06 we carried out a baseline review of Best Value arrangements across the health service and an improvement action plan was agreed with NHS Grampian. We found that NHS Grampian's arrangements were 'well developed' for four out of the then Scottish Executive's nine best value characteristics, with the remainder 'under development'. In 2007/08 we completed a follow-up review and found that the Board had made progress with all the agreed actions. A number of key developments are currently underway to assist in embedding best value principles within NHS Grampian.



## National Studies

50. Audit Scotland published 4 national study reports relevant to NHS Grampian and the key findings from these are summarised in the paragraphs which follow.

### A Review of free personal and nursing care

51. This report evaluated the robustness of financial planning, monitoring and reporting arrangements for free personal and nursing care, examined the current costs and funding allocations for free personal and nursing care for councils and identified the financial impact on older people, the Scottish Government and councils.
52. The report recommended that the Scottish Government and councils should continue to work together as a matter of urgency to clarify current ambiguities with the policy and should agree a national eligibility framework which defines risks and priority levels to ensure transparency in access to care for older people.
53. The report also recommended that councils should work with local health partners to evaluate the longer-term consequences of reducing domestic home care services, such as cleaning, shopping and laundry services.

### Managing Long Term Conditions

54. The study examined services for adults with long term considerations generally, focussing on two conditions in particular i.e. chronic obstructive pulmonary disease and epilepsy.
55. Some of the key recommendations were:
- that the SGHD, NHS boards and local authorities should collect better information on activity, costs and quality of services for long term conditions to support the development of community services
  - the SGHD, NHS boards and local authorities should evaluate different ways of providing services to ensure cost effectiveness and share good practice
  - NHS boards should take a more strategic role to ensure better working between CHPs and the acute sector to support the development and resourcing of community services
  - The SGHD and NHS boards should agree targets to support the development of community-based services
  - NHS boards and local authorities, through CHPs, should ensure comprehensive information is given to patients about their condition, and the health and social care services available, at the time of diagnosis.



## Primary care out-of-hours services

56. This study reviewed changes to the delivery of primary care out-of-hours services. We looked at national and local planning for out of-hours care; how much it costs the NHS; and how the current delivery of out-of-hours services affects patients and GPs.
57. The key messages are:
- over 95% of GP practices have chosen to opt out of providing 24-hour care to their patients, with responsibility passing to NHS boards. This has been a major challenge for NHS boards but they have managed to sustain services for patients. The opt-out offers an opportunity for NHS boards to change the way services are delivered and to improve patient care, although this will take time to be used to its full potential
  - most of the funding for new out-of-hours services comes from NHS boards' budgets. This has added to cost pressures for NHS boards, particularly in rural areas where they have had to meet a greater percentage of the costs. The cost to NHS boards in 2006/07 was approximately £67.93 million
  - the overall impact on patient care of GPs opting out of out of-hours services is not clear as it has been introduced alongside other changes. Due to the lack of national data available it is difficult to assess whether patients are benefiting, however, over 80% of patients are satisfied with the service they received. GPs are positive about being able to opt out and 88% of GPs are relieved to no longer have 24-hour responsibility for patients.

## Overseas staff in the NHS-pre-employment checks

58. This study was undertaken as a consequence of the security incidents in London and Glasgow in June 2007 which allegedly involved staff working in the NHS, including the Royal Alexandria Hospital. Following these incidents the Cabinet Secretary for Health and Wellbeing asked for the Auditor General to carry out an examination of whether pre-employment screening of overseas staff working in the NHS in Scotland was in line with the relevant guidelines.
59. The Auditor General published his report in late November 2007 and the key messages were:
- the NHS in Scotland does not have an accurate picture of the number of overseas staff employed
  - boards reported 1,161 overseas staff in NHS employment across Scotland at September 2007. However this is likely to be an underestimate as boards had difficulty identifying staff here on indefinite leave to remain. Of the overseas staff identified, boards estimated that 89 per cent of these were doctors or nurses



- in the five sample boards (including NHS Grampian) where more detailed work on compliance with pre-employment checks for overseas staff was carried out, boards had similar procedures and there was evidence of high compliance with procedures in the sample of personnel records reviewed.
60. In December 2007 the Scottish Government produced guidance on the recruitment of staff, including the additional procedures that must be followed when recruiting overseas staff. This guidance sets out the minimum requirements for NHS employers and implementation of the guidance is a requirement of the Staff Governance standard.



# Governance

## Overview of arrangements

61. This section sets out our main findings arising from our review of NHS Grampian's governance arrangements. This year we reviewed:
  - key systems of internal control
  - internal audit
  - aspects of information and communications technology (ICT).
62. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 9-13). Our overall conclusion is that arrangements within NHS Grampian are sound and have operated through 2007/08.
63. The NHS Grampian Board and Committee structure has continued to develop throughout 2007/08. Dr David Cameron was appointed as the new Board Chair from December 2007. The Board appointed a new Director of Human Resources and Strategic Change, which brought to an end interim arrangements that had existed since August 2005.
64. Following a pilot self evaluation workshop undertaken by the Audit Committee, a further series of facilitated workshops have been held for each of the governance committees of the Board. A number of key themes were identified for future development including, for example, the need for further work to improve the robustness of structures and processes for sharing information between the main Governance Committees. Each Committee has developed its own action plan.
65. During 2007/08 Internal Audit undertook a review of governance arrangements within each of the three Community Health Partnerships (CHPs). Whilst the review concluded that the key systems in place were generally satisfactory, it did note the need to improve the level of financial and performance information reported to the CHP Committees.

## Change and Innovation Programme

66. In August 2007, the Cabinet Secretary for Health and Wellbeing launched a consultation document entitled *Better Health, Better Care* seeking views which would help shape an action plan to achieve the government's objectives. The approach builds on the views expressed in the 2005 report *Building a Health Service Fit for the Future* and the model of care it proposed which shifts the balance of care away from acute services and into the community. NHS Grampian's 2007/08 Health Plan clearly sets out how this model of care will be applied in Grampian. The Change and Innovation Programme, which details the specific projects to be undertaken to progress service redesign, supports the Health Plan.



67. NHS Grampian are proposing to take forward three significant capital projects as part of the Change and Innovation Programme over the next five years as noted in paragraph 18. Planning, implementing and resourcing service redesign initiatives of this scale is both complex and demanding. Particularly challenging is finding the financial, human and infrastructure resource to function effectively in community settings, leading eventually to lower acute demands, while simultaneously maintaining acute services until such reductions finally come to fruition. Achieving the cultural and behavioural changes which are essential to success will be a major challenge for the Board.

#### **Risk Area 4**

### **Systems of internal control**

68. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2007/08 internal audit provided their opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness of the systems of internal control.

69. As part of our audit we reviewed the high level controls in a number of NHS Grampian systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

### **Statement on internal control**

70. The Statement on Internal Control provided by NHS Grampian's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out NHS Grampian's approach to this.

### **Internal Audit**

71. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2007/08 audit we assessed whether we could place reliance on NHS Grampian's internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in a number of areas during 2007/08, as we anticipated in our annual audit plan.



## Clinical governance

72. Grampian Health Board's clinical governance arrangements continued to develop during 2007/08. The Clinical Governance Committee provides the strategic oversight of the systems and procedures for clinical governance arrangements across NHS Grampian. During 2007/08 the Committee considered the implications arising from the NHS Quality Improvement Scotland (QIS) Peer Review reports on Blood Transfusion Services and Asthma Services for Children. NHS Grampian have developed action plans to take forward the recommendations arising from the QIS peer reviews and progress on implementation will be monitored by the Committee.
73. Developments during 2007/08 include the integration of Clinical Governance and Risk Management into a single unit and an ongoing review of sector clinical governance arrangements. A Corporate Risk Control Plan has been developed to guide assurance activity and influence service delivery, planning and prioritisation.
74. Progress against the Clinical Governance and Risk Management standards and requirements for future improvement were outlined in a paper to the Risk Management Group in 2007/08. This largely centres on the need for the Board to undertake and evidence monitoring and reviewing for most elements of the standards. The Board's internal auditors have recently conducted a review and identified a number of high risk areas for improvement, including the need for all Executive Director's to be aware of their responsibility for improving performance against the standards. The findings from this, along with those from the unit's own benchmarking exercise will be used to form a revised action plan.
75. Following the findings from internal audit, the Performance Governance Committee have now taken on responsibility for monitoring progress with the implementation of required actions to further implement the National Clinical Governance and Risk Management Standards.

## People management

76. The Boards LDP for 2008/09 includes a target to ensure that all employees covered by Agenda for Change have an agreed Knowledge and Skills Framework (KSF) personal development plan by March 2009. Some progress has been made with the implementation of KSF during the year, however, the main focus remains ensuring all staff are assimilated on the new Agenda for Change paycales and that any grading reviews are concluded. The LDP also highlights a number of risks to deliver the March 2009 target including: capacity issues; IT access and infrastructure issues; interface between the Scottish Workforce Information Standards System (SWISS) and eKSF; and skill levels to use eKSF appropriately. In addition, there is a risk of delayed downloads from SWISS to eKSF at a national level.



77. The Board has published its 2008 Workforce Plan which outlines the workforce skills and abilities required to deliver care to patients and to improve the health of the population. The plan focuses on what is required to shift the balance of care from Acute Specialist Services to services within Primary Care and the Community. Workforce planning continues to be an integral part of service redesign in NHS Grampian.
78. NHS Grampian is working towards achieving its HEAT targets by effectively utilising/redesigning the existing workforce. Given the low unemployment rate in Aberdeen City, recruitment and retention difficulties have been experienced in a number of areas. The Board is currently reviewing its Recruitment and Retention Strategy with a view to developing a number of new approaches to meet identified workforce needs.

#### **Risk Area 5**

79. NHS Grampian have continued to make progress towards full assimilation of all staff onto the new Agenda for Change paycales and payment of arrears to staff. At 30 June a total of 161 substantive staff (i.e. non bank staff) had yet to be assimilated and 897 staff were awaiting payment of arrears. Work is now ongoing to ensure that all bank staff are assimilated by 31 December 2008 and all leavers are assimilated and paid arrears due by 30 April 2009.
80. NHS Grampian's LDP for 2007/08 set a target for staff sickness absence of 4% by March 2008. The Board have implemented a number of initiatives in order to meet this target including a revised Attendance Management Policy and the introduction of the OHSxtra scheme to provide an enhanced Occupational Health Service to staff. However, overall absence rates for the period covered by the LDP vary between 4 and 6%. A target of 4% has once again been agreed as part of the 2008/09 LDP and NHS Grampian have set up a task force to support the promotion of wellbeing and working towards effective management of attendance to ensure that this target is met.

### **Prevention and detection of fraud and irregularities**

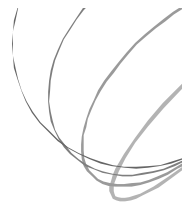
81. NHS Grampian has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.
82. The Scottish Government has issued an updated strategy to combat fraud in the NHS in Scotland, effective from 1 April 2008. The strategy includes the identification of a Counter Fraud Champion within each NHS body to further heighten fraud awareness and enforce the counter fraud message. The strategy also makes clear the role of Audit Committees for ensuring that all appropriate counter fraud measures are in place and that they have sight of all reports produced by NHS Scotland Counter Fraud Services. NHS Grampian have endorsed this updated strategy and appointed the Employee Director as NHS Grampian's Counter Fraud Champion.





## NFI in Scotland

83. During 2007/08, we continued to monitor the Board's participation in the 2006/07 National Fraud Initiative (NFI). This exercise is undertaken as part of the audit of the participating bodies. NFI brings together data from health bodies, councils, police, 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.
84. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Health bodies did not identify a significant part of these savings, as they are principally responsible for payroll matches, however the inclusion of health bodies in the process was worthwhile. Health employees were linked with several payroll irregularities, including a significant payroll fraud involving working while on sick leave at another body. Health employees were also linked with more than 90 cases of Housing Benefit fraud or overpayment. Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.
85. In May 2008 Audit Scotland released its report *National Fraud Initiative in Scotland 2006/07*. A full copy of the report is available on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). The report highlighted a range of areas where prevention and detection of fraud had been enhanced.
86. The report also noted that while the majority of participating bodies performed their role satisfactorily, reported performance was not as good in the following areas:
- about a quarter of participants could have planned better for NFI, demonstrated more commitment to the exercise or started work on their matches more promptly
  - bodies should review their approach to selecting matches for investigation. Better use could have been made of the web based application.
87. We reported, in 2006/07, that NHS Grampian established key contacts and nominated other contacts in personnel and payroll at an early stage and that following receipt of the data matches, an action plan was created for each type of match. We continued to monitor the board's progress with NFI as part of the 2007/08 audit. Adequate progress has been made to date in following up the NFI output and all necessary investigative work was completed within the required timescales. NHS Grampian did not identify any cases of fraud as part of the exercise.
88. Looking forward, Audit Scotland is working to widen the scope of the NFI in line with the rest of the UK. Public bodies will provide information again in October this year as part of their 2008/09 audits with the output expected in early 2009. We shall continue to monitor NHS Grampian's progress.



## Information and Communication Technology

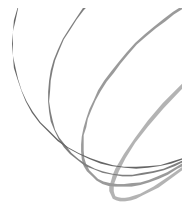
89. We noted in our Audit Plan that NHS Grampian have recognised the need for improvements in effective programme and project management to successfully implement the national eHealth programme. NHS Grampian have established a Programme Management Office (PMO) within the eHealth department to provide increased visibility to the work of the eHealth department in supporting both local and national eHealth developments. Although this work is only at an early stage, we agreed with local management that it would be appropriate to review the progress that is being made towards establishing the PMO in order to identify good practice and further development potential.
90. The recent formation of a PMO within the eHealth department has enabled a number of areas of good practice to be introduced, for example:
- all current project activity has been identified, recorded in the eHealth activity catalogue, and where appropriate grouped together into programmes that seek to deliver common outcomes
  - an agreed timetable is now in place for the preparation of monthly highlight reports covering all programmes within the portfolio
  - a formal process for assessing the strategic relevance of new project activities before they are added to the portfolio of programmes has been put in place
  - local project document templates are being developed using the SGHD PMO documents as a guide.
91. During the course of our review we also identified some potential risk areas that management may wish to consider more immediately:
- the existing core PMO team is small and there are currently some vacant posts: these may act as a barrier to the realisation of the full potential of the PMO
  - there is no over-arching resource plan that quantifies what resource is required to deliver all the programmes in the portfolio: consequently no accurate assessment can be made about whether or not NHS Grampian can deliver their strategic objectives on a timely basis
  - the PMO does not assist or monitor the preparation of progress reports to national programme boards: local management may not be fully informed about issues being reported nationally.



# Looking Forward

92. NHS Grampian faces a number of challenges in 2008/09, which include:

- **Capital programme** – As part of the Change and Innovation Programme, NHS Grampian have committed to three major capital projects with a combined budgeted cost of £177 million. NHS Grampian's Five Year Financial Plan 2008/09 – 2012/13 shows a cumulative deficit against the Capital Resource Limit set by the SGHD of £25.6 million at the end of 2012/13. NHS Grampian's Local Delivery Plan for 2008/09 has not to date been agreed with the SGHD as a result of this level of anticipated deficit. There is a significant risk that the SGHD do not approve these plans and that NHS Grampian are required to reassess the Change and Innovation Programme.
- **18 Week Referral to Treatment Target** – The Scottish Government have agreed that from December 2011 a patient's maximum waiting time from referral, by a GP, to treatment will be no longer than 18 weeks. There is a significant risk that management capacity and expertise may be insufficient to deal with both the strategic elements required to deliver the 18 week standard and delivery of services currently required by patients.
- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how NHS Grampian is addressing this developing area as part of the 2008/09 audit.



- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for NHS Grampian is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives. This will be the case even though NHS Grampian gains to some extent from the new NRAC funding model, compared to the existing methodology.
- **Equal pay** - The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Grampian as received some 404 of the 12,000 claims received nationally on this matter. NHS Grampian management, working with the Scottish Government Health Directorates and other NHS Boards, will require to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies' procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. Following the publication of an interim report in April 2008, the Scottish Government published their final report and recommendations in June 2008. We will monitor NHS Grampian's response to the review and action taken as part of our 2008/09 audit.
- **Best Value** - The concept of Best Value is seen as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year. NHS Grampian will wish to respond to this important initiative as it develops.
- **National developments** – With the election of a new Scottish Government in 2007, there are a range of national developments coming into operation or being piloted, including the use of independent scrutiny arrangements for major planned service changes and the introduction of elected members on NHS Boards. NHS Grampian will be required to respond to this developing agenda.

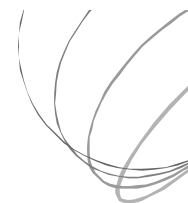
93. The Board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p>The Board is using non-recurring income to meet both recurring and non-recurring expenditure and relying on non-recurring savings to meet savings targets set by the SGHD.</p> <p>Where possible, the Board should aim to be in financial balance using non-recurring income to meet non-recurring expenditure only.</p>	<p>Most instances of non-recurring funding being used to support recurring commitments relate to staff costs. It is virtually impossible for the organisation to employ staff on a "non-recurring" basis e.g. temporary contracts or fixed term contracts. The solution is either to consider funding to be recurring (on the basis that it either becomes recurring in time or the organisation uses new funding to replace non-recurring funding removed) or to build in redundancy costs to employee contracts in excess of 11 months duration.</p>	<p>Director of Finance</p> <p>Director of HR</p>	Immediate
2	<p>A number of significant capital projects are planned under the C&amp;IP. As the SGHD have yet to approve the Board's LDP, due to a predicted capital shortfall of some £25 million by 2013, there is a risk that these may not proceed as planned.</p>	<p>The LDP and all financial plans including the capital plan have now been approved by the SGHD. However, the capital plan is very ambitious and dependent to some extent on receipts from asset disposals which may prove difficult to conclude. The Asset Investment Group is responsible for managing the capital plan and meets regularly to discuss its status and progress.</p>	<p>Director of Planning</p> <p>Director of Finance</p>	By half year and ongoing thereafter
3	<p>There is a risk that the Board is unable to spend its full capital allocation for 2008/09 impacting on successful delivery of service redesign under the C&amp;IP.</p>	As above.	<p>Director of Planning</p> <p>Director of Finance</p>	As above



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
4	Management capacity and expertise may be insufficient to achieve successful delivery of service redesign initiatives in the community while simultaneously maintaining acute services, in the short term, to the level required.	Shifting the balance of care more towards community settings is considered a medium to long term strategy. Workforce planning nationally and locally is fundamental to creating the skills required to effect the change on a gradual basis. NHSG continues to work with national workforce planning groups to develop strategies designed to ensure capacity is brought on line when required.	Director of HR and Strategic Change  Director of Planning	Ongoing
5	Given the relatively buoyant economy within the Aberdeen area, there is a risk that the Board is unable to recruit and retain staff. Furthermore, the need for existing staff to develop new skills, as a result of service redesign initiatives, may impact on morale and staff retention.	The national Knowledge and Skills Framework (KSF) linked to Agenda for Change is a key component of staff development and retention. There is a programme of KSF rollout in place, monitored nationally. Recruitment strategies are constantly under review, including working with public sector partners, in recognition of the need to vary approaches to compete in a tough market.	Director of HR and Strategic Change	Ongoing (KSF)  By year end (Revised Recruitment Strategy)