

# NHS Tayside

Report on the 2007/08 Audit

 AUDIT SCOTLAND

July 2008



# NHS Tayside

**Report on the 2007/08 Audit**

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# Executive Summary

## Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by NHS Tayside. 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 £3.1 million surplus from 2006/07 and planned to fully utilise this in 2007/08. The Board has maintained a cumulative surplus at 31 March 2008 of £1.8 million which means that there was an in-year deficit of £1.3 million. Financial balance has been achieved in part this year through the funding of some activities from the cumulative carry forward.

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 could have a significant impact in future years.

As outlined in the financial plan there will be tighter financial settlements in future years with uplifts of 3.15% in 2008/09 compared to 6% and greater in previous years. This will have a significant impact on long term financial planning and the control of non pay costs. The Board's Efficient Government/Cost Reduction Targets for 2008/09 recognise that £11.3 million of cash releasing targets are required to provide a year end break even position.

## Financial statements

We have given an unqualified opinion on the financial statements of NHS Tayside 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

NHS Tayside has a strong performance management culture and has continued to use its Taystat process. Overall, during the year NHS Tayside has achieved its waiting times targets including outpatients, accident and emergency and diagnostics.



## **Best Value**

Audit Scotland has been developing a framework for a Best Value audit approach based on the Scottish Government's nine best value principles. The focus currently is on the development of Use of Resources audit toolkits. The first toolkit which covers Financial Management was piloted in NHS Tayside during 2007/08. Work is ongoing in this area and a detailed report will be submitted in August and will draw upon examples of good practice across the NHS in Scotland.

In 2005/06 Audit Scotland undertook a baseline review of Best Value arrangements across the health service. The baseline review was undertaken at NHS Tayside and was based on the then Scottish Executive's nine best value principles. In 2007/08, we reviewed the baseline information to ascertain what arrangements NHS Tayside had put in place to take forward the best value agenda and demonstrate continuous improvement.

## **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 Tayside 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. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Clinical governance arrangements have continued to develop under the remit of the Improvement and Quality committee. The committee has the remit of providing assurance that effective mechanisms are in place throughout the local NHS system to support improvement.

## **Looking forward**

The final part of our report notes some key risk areas for NHS Tayside going forward. These are significantly centred round 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 Tayside. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 31 January 2008. 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 Tayside 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

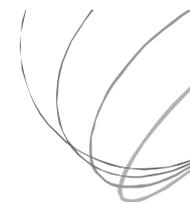
4. In this section we summarise key outcomes from our audit of NHS Tayside financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources 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 processes 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 Tayside for 2007/08.
8. As agreed the unaudited accounts were provided to us on 5th May 2008, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from NHS Tayside staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 19<sup>th</sup> June 2008 as planned.



## The Board's financial position

### Outturn 2007/08

9. NHS Tayside is required to work within the resource limits and cash requirement set by the Scottish Government. The Board's performance against targets is shown in Table 1 below.

**Table 1**

**Outturn 2007/08 Financial Targets and Performance £ million**

Financial Target	Target	Actual	Variance
Revenue Resource Limit	634,862	633,061	1,801
Capital Resource Limit	42,543	42,520	23
Cash Requirement	662,160	662,160	0

10. The Board achieved its financial targets during 2007/08 with the achievement of a £1.8 million cumulative surplus against the Revenue Resource Limit. In year, the Board incurred an excess against the Revenue Resource Limit of £1.3 million. The excess against the Revenue Resource Limit was funded from the prior year cumulative surplus of £3.1 million.
11. Table 2 below, shows how the cumulative surplus of £1.8 million was achieved through a combination of recurring and non-recurring funding. Historically Boards have relied upon non recurring funding to achieve financial targets. However, with the tightening financial settlements in future years and the option of capital to revenue transfers no longer available to Boards it will become increasingly difficult to rely on non recurring income and expenditure to make up the difference as Boards seek to rationalise their cost base.

### Risk Area 1

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

	£ Million	£ Million
Recurring income	730.69	
Recurring expenditure	732.27	
Underlying recurring (deficit)		(1.58)
Non-recurring income	20.596	
Non-recurring expenditure	17.215	
Balance of non-recurring		3.381
Financial Surplus		1.801



## 2008/09 Budget

12. There will be tighter financial settlements in 2008/09 and future years with an uplift of 3.15% in 2008/09 compared to 6% and greater in previous years. This will have a significant impact on long term financial planning and the control of non pay costs.
13. One of the most challenging areas regarding the achievement of financial balance is the annual pay settlement. NHS Tayside have assumed a 2.2% uplift on pay during 2008/09. The 2007/08 annual accounts included an accrual of £21.7million in respect of agenda for change payments. Although this accrual appears to be prudent, the Board is receiving a number of appeals and there is a risk that these may lead to further increases in the agenda for change obligations.

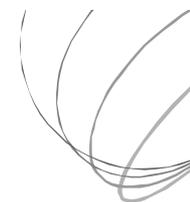
### Risk Area 2

14. The 2008/09 financial plan includes three year local Efficient Government targets. The savings targets are based on 2% of the general allocation. During the previous three years, NHS Tayside worked to an Efficient Government savings target of 1%. However, in each of these years, the targets were exceeded and a reduction on the reliance of non-recurring funding was realised. The continued achievement of future targets will be challenging and will require a strategic approach to be adopted when identifying savings.

## Issues arising from the audit

15. As required by auditing standards we reported to the audit committee in June 2008 the main issues arising from our audit of the financial statements. The key issues reported were
16. **Equal Pay** – 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 Tayside had received 565 claims under the Equal Pay Act. As a minimum for 2007/08 we requested disclosure within the Contingent Liabilities note to the accounts.

**Resolution:** An unquantified contingent liability was included in the accounts and reference was made in the Letter of Representation.



17. **Agenda for Change** – As at the 31<sup>st</sup> March 2008 £21.7 million was accrued in respect of agenda for change payments. This figure consists of estimations based on a number of assumptions applied by NHS Tayside and refers to a range of staff posts and grades. We asked the Board for formal assurances, in a letter of representation, that the accrual, in their judgement, represents a prudent estimate of anticipated costs.

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

18. **Impairments** – Impairments totalling £4.2 million are included within Annually Managed Expenditure on the Summary of Revenue Resource Outturn. Estimations of the levels of impairments chargeable are included within this amount and we requested that the letter of representation includes assurances that all disclosures and accounting treatment have been effected in accordance with the Capital Accounting Manual and relevant guidance.

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

19. **Pension Provisions** – Due to the fact that the SPPA has not advised Boards of the amounts due for payments relating to early retirement costs, the accrual includes an estimation. NHS Tayside has estimated the accrual using the most recent data received as a base and 0% of uplift has been included. We asked the Board for formal assurances, in a letter of representation that the accounts represents a prudent estimate of anticipated costs.

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

## Equal Pay Claims

20. 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 NHSScotland and co-ordinates the legal response of NHSScotland to this issue.
21. For 2006/07, we accepted that no estimate of the potential liability for these claims could be identified because this was an emerging issue and still at an early stage and as a result a contingent liability was included within the NHS Tayside financial statements. We strongly encouraged NHS Tayside 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.



22. 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.
23. 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.
24. We note the CLO's current view of the stage the cases have reached but strongly encourage NHS Tayside 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.

### **Risk Area 3**

## **Regularity**

25. 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.

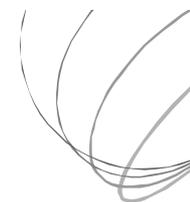


# Performance Management

26. 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.
27. 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.
28. This section covers our assessment of the way in which NHS Tayside secures value for money in the use of its resources. This year we focused primarily on monitoring the Board's Performance Management arrangements and examining the arrangements for Best Value through a follow up to the baseline study and reviewing the arrangements for the Best Value Use of Resources, focussing on financial management.

## Performance Management

29. 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. Delivery of the Ministerial objectives is determined by improved performance against 31 key performance measures. These measures also feature in the Board's own corporate objectives. The Board approved the 2007/08 LDP at its meeting in February 2007.
30. NHS Tayside's performance against a number of key targets in 2007/08 is as follows:
  - uptake of childhood vaccinations continues to rise towards the 95% target, with a rate of 94% being achieved by the end of December 2007
  - overall absence rates vary between 4% and 6%, but the Board remains committed to delivering the national target of 4% by March 2009. A sickness absence Management Board has been established and an action plan is being drawn up to promote improvement
  - in 2007/08 only three patients exceeded the 18 week HEAT target for no patient to wait more than 18 weeks for inpatient or day case treatment. These breaches were due to exceptional circumstances outwith the direct control of NHS Tayside
  - the percentage of accident and emergency cases treated from arrival to admission, discharge or transfer within four hours exceeded the 98% target by February 2008
  - the board achieved the target for the April 2008 delayed discharge census of having no patients delayed by over 6 weeks. The future sustainability of this target will require the Board's ongoing attention.



31. The structure of the 2008/09 Corporate Objectives has been changed in the year. For 2008/09, 10 Corporate Objectives have been identified which reflect local and national priorities. Supporting the achievement of these objectives are 103 outcomes. The outcomes are made up of targets – most of which are set by the Scottish Government through NHS Tayside's LDP – and strategic actions to improve services, extend the range of services, support equity of access and ensure best value in the use of resources. Most of these are informed directly by the commitments adopted by the Board in response to the Government's plan 'Better Health, Better Healthcare'. Finally, supporting the achievement of the outcomes are 290 supporting actions and measures. These represent the main changes that will be required to happen so that targets are achieved and strategic actions successfully undertaken. Against each outcome are measures for success which are specifically designed to help focus on desired results and to assess progress.
32. NHS Tayside are continuing to use Taystat for assessing and improving performance and the Community Health Partnerships (CHPs) are each developing their own performance management frameworks. The Taystat monthly meetings help to review ongoing progress and to progress corporate objectives.
33. During 2007/08 NHS Tayside, in partnership with the Scottish Government, piloted a number of Rapid Improvement Events (RIEs). A number of events have been reported on and all have made significant improvements for patients, staff and the Board. Examples of improved outcomes from RIE include; improved signage in Ninewells Radiology Department, additional Radiographers to support acute services at Perth Royal Infirmary (PRI). In 2008/09 NHS Tayside are continuing their partnership with the SGHD. Staff seconded from the SGHD will allow the RIEs to take place during 2008/09 while also providing an opportunity for the Board to train their own members of staff in the methodology to allow them to facilitate future events.
34. Overall, the Board recognises the importance of maintaining a rigorous system of performance management throughout the organisation and we will continue to monitor progress in this area during the 2008/09 audit year.

## **Best Value developments**

35. 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.



36. 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.
37. 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.
38. 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.
39. 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.
40. The first of these toolkits, which covers Financial Management, was piloted in NHS Tayside 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 monitoring and control
  - financial reporting.
41. Our work in these areas is ongoing, although we have established that the Board's arrangements in this area are soundly based. We plan to submit our detailed report in August, drawing upon examples of good practice across the NHS in Scotland.
42. In 2005/06 we carried out a baseline review of Best Value arrangements across the health service including NHS Tayside. We found that NHS Tayside's arrangements were 'well developed' in all nine areas. In 2007/08, we completed a follow-up review to monitor the progress made by the Board since 2005/06. We are presently collating information for this update and will report our findings shortly.



## National Studies

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

### **A review of free personal and nursing care (FPNC)**

44. This report evaluated the robustness of financial planning, monitoring and reporting arrangements for free personal care, examined the current costs and funding allocations for councils and identified the financial impact on older people, the Scottish Government and councils.
45. 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.
46. The report also recommended that councils should work with local partners to evaluate the longer-term consequences of reducing domestic home care services, such as cleaning, shopping and laundry services.

### **Managing Long Term Conditions**

47. 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.
48. 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**

49. 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.

50. The key messages are:

- over 95 per cent 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 interviewed stated that they are satisfied with the service they received. GPs are positive about being able to opt out and 88 per cent of GPs interviewed were relieved to no longer have 24-hour responsibility for patients.

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

51. 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. Following these incidents the Cabinet Secretary for Health and Wellbeing asked 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.

52. The Auditor General published his report in 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 (not including NHS Tayside) 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.

53. The above study was extended during 2007/08 to include all NHS Boards. The main findings from the study at NHS Tayside were :

- although formal policies and procedures for the employment of overseas staff have not been locally developed, in general the board was complying with Scottish Government guidance. A suggested improvement was the introduction of a checklist for each employee file for ease of checking that the appropriate documentation had been received and filed
- disclosure checks had not been sought by the board where overseas staff began employment before disclosure checks became mandatory
- overseas police checks are not routinely performed by the board and there was no evidence on file of risk assessments being carried out as a back up measure.

54. 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

55. This section sets out our main findings arising from our review of NHS Tayside's governance arrangements. This year we reviewed:
- key systems of internal control
  - internal audit
  - aspects of information and communications technology (ICT).
56. 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. Our overall conclusion is that arrangements within NHS Tayside are sound and have operated through 2007/08.
57. The NHS Tayside Board and Committee structure has continued to develop throughout 2007/08. Sandy Watson was appointed as the new Board Chairman from December 2007. The Board has now appointed a new Director of Strategic HR and Workforce Development.

## Service Redesign and Sustainability

58. During 2007/08 a number of developments were completed throughout NHS Tayside, these included the refurbishment of the Cardiac Catheter Laboratory, the opening of the new Medical High Dependency Unit, the Strathmore Diabetes Centre and the new Pitlochry Community Hospital.
59. The board has made commitments for 2008/09 for projects that will incur expenditure of £9.8 million. The main projects to be undertaken include the Perth Teach and Treat dental facility, the Perth Palliative Care Facility, Carseview decant ward and the new assisted conception unit. It is also anticipated that a number of new projects will be taken forward in 2008/09 and these would include the gamma camera/pharmacy project on the Perth site and the expansion of renal dialysis at Ninewells.
60. 2007/08 was the first complete year of operation of the Stracathro Regional Treatment Centre (SRTC). The centre carries out planned surgical procedures for three health boards at the evenings and weekends. The overall purpose of the project was to work in partnership with the private sector to utilise spare capacity to help reduce waiting times. A post implementation review was performed in June 2008 and this highlighted that there had been a positive impact on waiting times and that patient satisfaction levels were high. The report identified that as waiting lists and times reduce in the referring Boards it may be less attractive for patients to attend the SRTC. To maintain value for money, NHS Tayside, together with referring boards and the provider, will need to continuously review the potential for future flexibility in the case-mix of procedures referred to the SRTC.

**Risk Area 4**



## Better health, better care

61. In December 2007, the Cabinet Secretary for Health and Wellbeing launched an action plan for *Better Health, Better Care*. At the launch of this document. The Cabinet Secretary emphasised patient participation, improved healthcare access and a focus on the challenges of improving Scotland's public health and tackling health and equalities.
62. During 2008, NHS Tayside performed an assessment of the Board's level of compliance with the action plan and identified priorities and required developments for the future. The board has identified a lead person for each of the areas within the action plan and all actions have now been incorporated into NHS Tayside's corporate objectives for 2008 and beyond. Monthly monitoring of performance is done at the Taystat meetings and a quarterly performance report is presented to the Board.

## Systems of internal control

63. 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 his annual report for 2007/08 the Chief Internal Auditor provided his opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness on the systems of internal control.
64. As part of our audit we reviewed the high level controls in a number of NHS Tayside systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

## Statement on internal control

65. The Statement on Internal Control provided by NHS Tayside'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 Tayside approach to this.

## Internal Audit

66. 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. The internal audit services in NHS Tayside are provided by an internal audit consortium ie. FTF (Fife, Tayside and Forth Valley) Audit and Management Services. Scott Moncrieff has the lead role in reviewing the internal audit arrangements in Fife, Tayside and Forth Valley NHS Board areas. Scott Moncrieff concluded that the internal audit service operated in accordance with the NHS Internal Audit Manual and we therefore placed reliance on internal audit work in number of areas during 2007/08, as we anticipated in our annual audit plan.



## Clinical governance

67. NHS Tayside's clinical governance arrangements continued to develop during 2007/08 following the formation of the Improvement and Quality Committee and Sub-committee in 2006/07. The board is currently reviewing this governance structure with a view to merging and streamlining the remits of these two committees. NHS Tayside recognises the need for a robust scrutiny process to consider the detail of governance and improvement work and the formation of a scrutiny panel is being considered. Internal audit will perform a review of the governance structure during 2008/09 and this will help determine the revised committee structure for future years.
68. During 2007/08 the Committees considered the implications arising from NHS Quality Improvement Scotland (QIS) reports on the Out of Hours service, breast screening and clinical governance and risk management. Best Value reviews in the areas of nutrition and physical activity were completed and implemented during 2007/08. The sub-committee oversaw the implementation of the revised Palliative Care Strategy during 2007/08. CHPs have now established improvement groups focussing on improving palliative care services at a local level with clinicians, managers, patients and carers. The actions arising from these reviews will continue to be monitored by the Committees.
69. During 2007/08 the Scottish Government invited NHS Tayside to participate in a pilot programme of lean thinking methodology involving Rapid Improvement Events (RIE) for the NHS in Scotland. Three events in diagnostic services were funded by the Scottish Government in the areas of urology, magnetic resonance imaging and endoscopy. The results of the RIEs are reviewed by the Improvement and Quality Sub-committee.

## People management

70. The Board's 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 this 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. There are risks to achieving the March 2009 target including capacity 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.

**Risk Area 5**



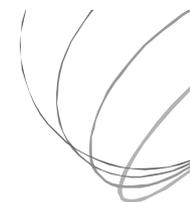
71. NHS Tayside has continued to make progress towards full assimilation of staff onto Agenda for Change paycales and payment of arrears to staff. At 31 March a total of 12,412 staff had been assimilated and arrears had been paid to 9,359 employees. The accrual in the 2007/08 accounts of £21.7 million is due in part to the fact that NHS Tayside does not pay arrears to staff until the checking process is complete. Work is now ongoing to ensure that all staff are assimilated and paid arrears by 31 April 2009.
72. As with other health boards in Scotland, NHS Tayside faces a major challenge to achieve the national sickness absence target of 4% by March 2009. The overall sickness absence target in 2007/08 was 5.03%, with the fourth quarter recording an absence rate of 5.30%. To address this issue, NHS Tayside has established an Absence Management Board to review the progress of trajectories and to identify best practice and explore approaches to dealing with absence issues.

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

73. NHS Tayside 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.
74. In 2007/08 the Scottish Government issued an updated strategy to combat fraud in the NHS in Scotland. 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 of 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 Tayside have endorsed this updated strategy and appointed the Associate Director of Finance as NHS Tayside's Counter Fraud Champion.

## **NFI in Scotland**

75. 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 boards, 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.
76. 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.



77. 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.
78. 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.
79. We reported, in 2006/07, that NHS Tayside 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. Good progress has been made as NHS Tayside reviewed all of the high level matches and were assisted by internal audit in sampling the medium level matches.
80. 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. Information is to be transferred through the use of an encrypted upload facility We shall continue to monitor NHS Tayside's progress in this area.

## Information and Communication Technology

81. During 2007/08 Audit Scotland undertook a review of NHS Tayside's Financial Management System (FMS) Computer Service. This is based upon the CedAR 'eFinancials' system and is provided to a group of NHSScotland organisations known as the Tayside Shared Financial Services Consortium. Through the audit work undertaken no issues have been identified which would impact upon the operation of the FMS computer service.
82. The key findings from the review included that plans are being developed to align the NHSScotland shared support services (SSS) programme to implement a single shared financial service including all consortium members. Staffing within the Maryfield Financial Services Centre (MFSC) eFinancials team has remained at a level that ensures appropriate system administration skills are deployed for the eFinancials consortium.
83. The review highlighted a number of areas of good practice including the replacement of eFinancial servers to ensure that they are capable of supporting the implementation of a shared financial service. A project board has been put in place to oversee the implementation of a consortium-wide shared financial service, which comprises director of finance representation for all members and the director of the NHSScotland Shared Support Services programme.



# Looking Forward

84. NHS Tayside faces a number of challenges in 2008/09, which include:

- **Capital programme** – NHS Tayside's Strategic Financial Plan 2008/09 – 2012/13 shows that the value of assets that NHS Tayside expects to create or replace is approximately £286 million. The planned investments include the introduction of PET/CT scanning and reconfiguration of nuclear medicine facilities in Ninewells; the mental health developments project, including the Regional Secure Unit; and further development of the Stracathro site. A specific challenge will be to manage the impact of inflation in the construction industry, given that capital resources available to the Board are not expected to increase materially over the period of the plan. The Mental Health Developments (MDO) project continued to progress throughout 2007/08. The funding for this project is to be achieved through the use of a Non Profit Distributing Organisation (NPDO). This will be the first time that an NPDO will have been utilised as a funding vehicle for a health sector project. Although the development will be located in the Tayside area, the MDO project will also have input from four other NHS Boards - Grampian, Highland, Shetland and Orkney. Work is currently being progressed so that financial close on this project is achieved during 2009/10.
- **18 week referral to treatment target** – the Scottish Government has 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 risk that management capacity and expertise may be insufficient to deal with both the strategic elements required to deliver the 18 week target and delivery of services currently required by patients.
- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2008 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts to be compliant with effect from 2009/10. The Scottish Government has notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year 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 derived from 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 Tayside 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 IFRSs, particularly on PFI, leases and infrastructure accounting. The challenge for NHS Tayside is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives. This will be made more difficult with the introduction of the new NRAC funding model as 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 Tayside has received some 565 of the 12,000 claims received nationally on this matter. NHS Tayside management, working with the Scottish Government Health Directorates and other NHS boards will require to form a view on the potential liabilities as soon as practicable, taking into account the progress of cases throughout the UK.
- **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 a final report and recommendations in June 2008. We will monitor NHS Tayside'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 Tayside will wish to respond to this important initiative as it develops.
- **National developments** – with the election of a new Scottish Government in 2007, there is 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 Tayside will be required to respond to this developing agenda.

85. 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	Financial targets in 2007/08 were achieved partly using non-recurring funding. There is a risk that the Board may not achieve financial balance in the future if there is a dependence on non-recurring funding.	NHS Tayside has successively reduced its dependence on non-recurring sources of funding over the last 2 years from £13.7m in 2005/06 to £7.0m in 2006/07 and down to £1.6m in 2007/08.  The Board continue to closely monitor expenditure trends and financial risks at both a management and governance level within the organisation. The Chief Executive and Chief Operating Officer have recently written to all Executive Officers reminding them of the critical importance of achieving financial targets and of securing recurring efficiency targets.	Chief Executive supported by Executive Team	March 2009
2	Due to the level of appeals being received in relation to Agenda for Change there is a risk that the actual costs may be in excess of budgeted levels.	This risk is being closely monitored by the Director of Human Resources & Workforce Development and the Director of Finance. This risk is also monitored regularly by the Strategic Policy & Resources Committee in reviewing the monthly Corporate Finance Report. Within NHS Tayside the proportion of staff who have originally been assimilated on protected terms is below the national average.	Director of Strategic Human Resources & Workforce Development and Director of Finance	March 2009
3	The crystallisation of equal pay claims would increase the risk to the achievement of the financial plan in 2008/09.	A management group chaired by the Assistant Chief Executive monitors the position on claims at local level and emerging trends arising from litigation on a UK basis, taking account of Central Legal Office advice. At this stage sufficient information is not available to reliably quantify any potential impact.	Director of Strategic Human Resources & Workforce Development	March 2009
4	If referrals to the SRTC fall below the minimum value as stated in the SRTC contract, value for money may not be achieved by NHS Tayside.	A rigorous performance monitoring arrangement is in place with continuous review of referrals from referring boards and opportunities for flexibility in the case-mix of procedures referred.	Chief Operating Officer	March 2009
5	There are risks that there may be problems in staff retention caused by delays in achieving the KSF target.	NHS Tayside has put in place a plan and resources to achieve the HEAT target by March 2009. Progress is being monitored by the Staff Governance Committee and as part of the Taystat processes.	Director of Strategic Human Resources & Workforce Development	March 2009