INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Dumfries and Galloway NHS Board

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

Year ended 31 March 2010

9 June 2010

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Dumfries and Galloway NHS Board and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

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

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Executive summary

The Board has suspended its consultation process on its future clinical strategy to afford it a further opportunity to review available options and consider how they might be enhanced to reflect the wide-ranging views received from the public. The capital plan for 2010-20 includes £129 million for the proposed redevelopment of Dumfries and Galloway Royal Infirmary – the suspension of the consultation process has resulted in the deferral of this project to later years. A full business case has still to be approved by the Board and the Scottish Government. Consequently, there is still a high level of uncertainty over progression of this development and the level of financial resources that will be available to complete both this and other key projects in the future. Whilst it is evident that the Board remains firmly committed to the vision and strategic aims of the clinical services strategy, the changed timescale for completion of the proposed developments or consequent changes in elements of the strategy may have some, albeit as yet unidentified, adverse impact on the sustainability of Board services as presently configured.

There is a continued commitment by the Board to improving service delivery through expansion of partnership working, review of patient safety arrangements and frequent performance reporting. Developments during 2010-11 have included the launch of a live 'idashboard' to provide increased coverage of the Board's performance against mandatory and internal targets.

The Board maintains an integrated governance framework to provide an appropriate structure for maintaining decision-marking, accountability, control and behaviour. The Board is one of two pilot boards for the introduction of direct election of members in June 2010. Following the elections, it will be vital that management ensure that appropriate training and resources are available to integrate new members into the existing framework and maintain its overall effectiveness.

The Board met its financial targets and the financial outturn was consistent with forecasts. This followed acceleration of expenditure of projects earmarked for 2010-11 as a result of anticipated underspends identified by management through its financial monitoring procedures. This evidences the overall continuing robustness of management's internal systems for financial monitoring and control.

Following identification and implementation of a number of schemes to generate cash releasing efficiency savings the Board achieved cumulative recurring savings of £9.5 million. Further schemes are planned to generate additional savings of £7.8 million during 2010-11. Annual savings include £1 million per annum will be used to support development of the clinical strategy.

Financial plans forecast a surplus against the Board's revenue resource allocation of £2.2 million for 2010-11. Future financial projections are based on a number of underlying assumptions which may be subject to change as a result of potential cut backs in funding allocations following the change of government in the United Kingdom. Continued medical staffing pressures and uncertainly over approval of a number of projects within the capital plan pose a risk to achievement of future targets and will require close scrutiny over the coming years.

The Board will shortly be participating in a trial project to validate proposed new NHS Counter Fraud Service's fraud risk assessment methodology. This newly developed methodology looks to assess fraud risk, thus facilitating the identification and prioritisation of areas for proactive work and NHS Counter Fraud Services anticipate that this will bring several benefits to NHS Scotland.

Scope

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("The *Code*"). This specifies a number of objectives for our audit.

Audit framework

This year was the fourth of our five-year appointment by the Auditor General for Scotland as external auditors of Dumfries and Galloway NHS Board ("the Board"). This report to the Board and Auditor General provides our opinion and conclusions and highlights significant issues arising from our work. We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with the audit committee earlier in the year.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including the financial outturn for the year ended 31 March 2010 and financial plans for 2010-11 and beyond;
- arrangements around **governance and accountability**, including risk management, patient safety, partnership working and our consideration of the work of internal audit; and
- **performance management** and the Board's arrangements to achieve efficiency savings.

Best Value

Audit Scotland and the Scottish Government have been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Executive's nine best value principles as the basis for audit activity, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). In 2009-10 we completed work on arrangements to achieve Best Value through planning and resource alignment, and vision and strategic direction.

International financial reporting standards

The 2007 Budget had announced that central government and health bodies would report under international financial reporting standards ("IFRS"), as adapted by HM Treasury through the financial reporting manual ("IFReM"). The financial statements for the year ended 31 March 2010, including comparative information for 2008-09, have been prepared on the basis of the IFReM.

Responsibilities of the Board and its auditors

External auditors do not act as a substitute for the Board's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the accountable officer, to make arrangements to secure Best Value.

Action plan

We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2009-10 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management. We have not made any further recommendations within this report.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during our work.

Service overview

While it was intended that public consultation on the Board's future clinical services strategy would have been completed by April 2010, in February 2010 the board suspended the consultation process on the strategy to afford it a further opportunity to review available options and consider how they might be enhanced to reflect the wide-ranging views received from the public. Management has gathered a substantive volume of information which will be reviewed to pull out key points of concern, but it will obviously take some time to consider how to address some of the points raised. Whilst it is evident that the Board remains firmly committed to the vision and strategic aims of the strategy, the changed timescale for completion of the proposed developments or consequent changes in elements of the strategy may have some, albeit as yet unidentified, adverse impact on the **sustainability** of Board services as presently configured.

A key aspect of the clinical services strategy is the proposed redevelopment of Dumfries and Galloway Royal Infirmary which will aid **service redesign**. Management had originally planned to start the redevelopment towards the end of 2010-11. However, following suspension of the consultation process, this is expected to be delayed until 2011-12; the business case has still to be submitted for approval by the Board and submission to the Scottish Government. Uncertainty over availability of funding for the clinical strategy and potential cuts in funding allocations generally is likely to increase the risk of insufficient resources being available for smaller projects. Following restructuring of general management arrangements from April 2010, the Board plans to undertake a comprehensive review of funding to ensure that future priorities provide a logical match between demand and capacity available.

The Board maintains a clearly established **governance** structure, including delegation to committees. Board workshops have been held during the year to provide guidance to senior staff on key governance issues and risks facing the organisation. Key areas considered have included risk management and medical workforce planning. **Scrutiny** of performance and achievement of targets has increased during 2009-10 through the introduction of a scrutiny committee. This has provided opportunity for increased challenge and scrutiny by both executive and non-executive directors, providing assurance that key members of the board are aware of and involved in the management of service developments and the related corporate risks.

The Board remains committed to local **partnership working** and continues to identify and expand new opportunities for improving service arrangements. Management continues to assess the contribution that partnership working can make towards the clinical services strategy and the underlying plan to move healthcare into as local and 'appropriate' a setting as possible. Ongoing projects, such as building health communities have highlighted efforts to utilise partnership working arrangements to aid progress against problematic HEAT targets such as smoking cessation, breast feeding and child obesity.

Financial management processes within the Board remain strong with regular financial updates presented for review and scrutiny by senior management. The three year efficiency plan rolled out in 2008-09 has targeted and achieved annual savings in excess of the minimum 2% requirement set under the Scottish Government's efficient government programme. A monitoring group was established during 2009-10 and this has provided regular assessment of progress against targeted efficiency schemes to ensure that savings are realised in line with the requirements of the local delivery plan. Continued achievement of planned savings has been highlighted by management as a key part of ensuring sufficient resources are available to fund **service redesign** through the clinical services strategy.

Governance arrangements for **patient safety** and clinical care remain consistent and are a key focus for the clinical strategy. The board maintains a high drive towards implementing actions under the Scottish patient safety programme and staff is regularly updated on the importance of patient safety arrangements. During the year the Board has shown initiative in developing key aspects of the programme by

Service overview (continued)

expanding infection control procedures to community hospitals and has challenged new schemes introduced where existing procedures have shown greater efficiency.

Internal reporting arrangements demonstrate the importance recognised by management of maintaining effective arrangements for management of patient safety. Future actions for strengthening internal procedures include reviewing patient feedback to assist in enhancing safety arrangements and development of a new electronic reporting system for the recording and reporting of all patient safety related data. This will provide additional resources for monitoring progress of key patient safety indicators combined with the information available following the in year launch of the Board's 'idashboard'.

Risks remain around future workforce planning and **capacity to deliver**, especially in relation to nursing staff where a relatively large proportion of staff are approaching retirement. Recruitment remains an ongoing issue and management have made additional funds available to fund efforts to improve recruitment procedures, in particular for junior doctors, and to ensure that the Board remains compliant with the European working time directive. Further, the board has approved a medical education and educational governance strategy to ensure that quality levels for education are maintained and that training supports recruitment and retention of staff.

The clinical services strategy will have a significant impact on workforce planning in future years and the demographic profile of staff remains a key concern to management and will be considered as part of the workforce and planning mix for future years.

The Board maintains a structured and robust approach to **performance management** and the introduction of the 'idashboard' has provided additional resource for the maintenance and monitoring of 'live' performance data. Arrangements for performance management in relation to partnership working remain consistent with previous years and key performance indicators are included within the single outcome agreement in place with local partners in the Dumfries and Galloway region.

Management has reviewed arrangements for ensuring compliance with the carbon reduction commitment efficiency scheme introduced by the UK Government. A carbon management plan is being developed to ensure that appropriate plans are in place for improving energy efficiency and reducing emissions. Potential schemes being considered include the purchase of a second biomass boiler with the intention of removing fossil fuel heating within Dumfries and Galloway Royal Infirmary.

In April 2010 management completed two of Audit Scotland's toolkits for monitoring **Best Value** arrangements**.** An internal assessment was carried out over the current vision and strategic direction of the Board and management's arrangements for planning and resource alignment. The first of these made consideration of the Board's current vision and linkage with both local and national priorities, together with the suitability of the Board's culture and available capacity to maintain continuous improvement and manage future priorities. The second examined the effectiveness of corporate planning and the efficiency of current frameworks to ensure effective integration of corporate strategies and resources to help deliver improved outcomes.

We evaluated management's responses and wider evidence and concluded that the Board demonstrates 'better practice' or 'advanced practice' in all areas assessed. Examples of advanced practices with relation to vision and strategic direction include active use of stakeholder groups to assist development of future strategies, evidence of effective plans to ensure Best Value related improvements and working practices and existence of an underlying culture to maximise partnership working to aid service delivery improvement.

Advanced practices identified above are supported by our review of arrangements for planning and resource alignment which highlighted evidence of plans for continuous improvement through implementation of the clinical services strategy and a clear "hands on" approach by

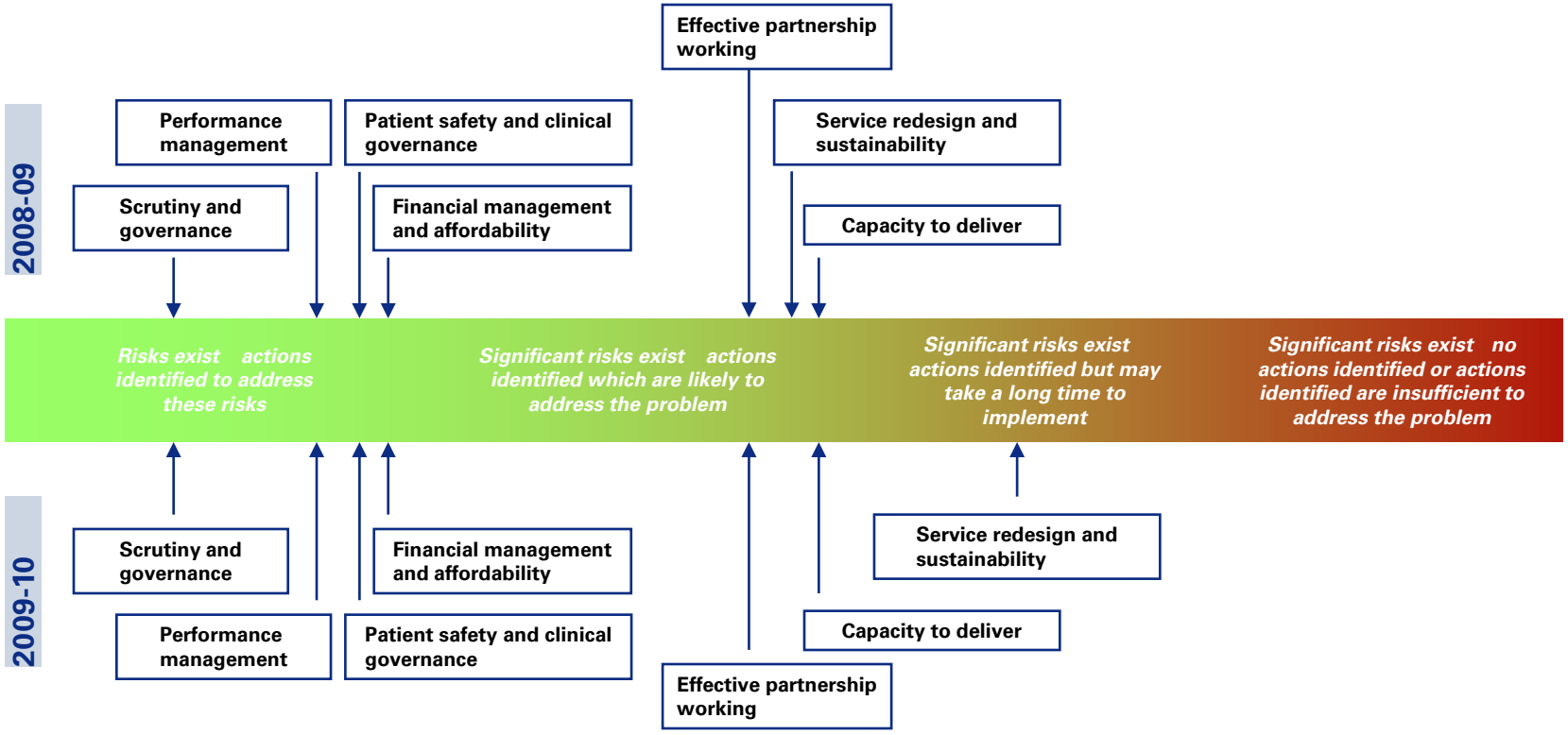
Service overview (continued)

senior management to implement and coordinate planned developments whilst allowing for appropriate consultation and input from staff across the organisation. Management is considering these findings and working towards embedding advanced practices in all areas.

Audit Scotland prepared a number of **national studies** which aim to assess and share best practice while acting as a trigger for development. Management has produced action plans for implementing the recommendations from a number of relevant reports. This should ensure that the Board benefits from the work undertaken and findings from work at other public sector bodies.

Overall, our analysis demonstrates that the Board's arrangements have remained consistent with 2008-09 with the exception of service redesign and sustainability. The movement in this area reflects the Board's decision to suspend the consultation process for the clinical services strategy which is a integral feature of future service redesign plans. We note that the Board is still firmly committed to the vision and strategic aims of the clinical services strategy. However, we believe that the risk relating to this has increased as the suspension of the consultation process will increase the time taken to realise the Board's vision.

The Board's arrangements to achieve national priorities and mitigate against key risks in 2008-09 and 2009-10 are characterised by us as follows:



Financial statements

We have issued unqualified opinions on the financial statements and the regularity of transactions reflected in those financial statements.

We have assessed all key risk areas as documented in our audit plan overview and did not identify any significant issues that would impact our audit opinion. We did not identify any further key risk areas during our audit of the financial statements.

We have reviewed management's procedures for verifying payments processed by NHS National Services Scotland in relation to family health services. The Board continues to comply with the requirements for qualities and outcomes

NHS Counter Fraud Services estimate that potential fraud in patient exemption claims is £0.2 million (*2009: £0.4 million*). Management believe this is not material and has not amended the financial statements,

Reporting arrangements and timetable

Draft financial statements were available for audit on 4 May 2010, earlier than in previous years due to the acceleration of the timetable. However, some aspects were incomplete and a number of key schedules were provided to the audit team as the audit progressed. A full set of draft statements were presented for review on 20 May 2010. We incorporated this in to our planned audit approach and the audit was completed in a timely manner and the board considered and approved the financial statements at the board meeting as planned.

Audit opinion

Following board approval we issued an audit report expressing unqualified opinions on the financial statements for the year ended 31 March 2010 and on the regularity of transactions reflected in those financial statements.

Key issues arising during our audit of the financial statements

Our audit plan overview and interim management report narrated potential key risk areas to be considered during our audit of the financial statements. We have concluded our work in each area and summarise the results below.

Financial position

Achievement of a cumulative surplus carried forward of £2.2 million is in line with financial plans and management reporting during the year. An additional underspend against operating budgets of £0.9 million was identified and utilised by management through an over commitment of reserves. This included an acceleration of information and technology and equipment spending plans for 2010-11, an increase in provision required for injury benefits and additional locum spend.

Efficiency savings

The Board's in year efficiency target required by the Scottish Government under the efficient government programme for 2009-10 was set at 2% or £4.8 million. In the Board's financial plan, management set a cumulative target of 4% or £9.6 million to be achieved by 31 March 2010. Management has reported cumulative efficiency savings as at 31 March 2010 of £9.5 million. This result is in line with management's targeted outcome and reflects the significant work undertaken to identify cash releasing efficiency savings ("CRES") in recent years. Identification and achievement of these savings is a key element of the future financial planning and allocation of resources to fund service redesign through the developing clinical services strategy.

Financial statements

Application of International Financial Reporting Standards as interpreted by the International Financial Reporting Manual (IFReM)

The Scottish Government announced on 25 April 2008 that all Scottish Government departments, executive agencies, non-departmental public bodies and health boards would report under IFRS from 2009-10, necessitating the restatement of comparative information under new accounting policies.

As part of the process of transition to IFRS, the Board prepared 'shadow accounts' which we reviewed and reported on in Autumn 2009. Our review identified a number of issues which required further consideration by managements. Each of these has subsequently been actioned.

The transition to reporting under IFRS has resulted in the following key changes in the financial statements:

- The maternity and day care centre PFI arrangement at Dumfries and Galloway Royal Infirmary has now been recognised 'on balance sheet' with both an asset value and related liability appropriately reflected;
- An accrual has been made for untaken holiday pay at the balance sheet dates; and
- Accounting policies have been updated in line with the IFReM.

There have also been significant changes to the overall presentation of the financial statements.

Equal pay

The National Health Service in Scotland has received in excess of 11,000 claims for equal pay and the Board has received 199 claims. These have been referred for the attention of the NHSScotland Central Legal Office to co-ordinate the legal response to this issue.

Developments over the past year have slowed the progress of claims and led to a reduction in the number of claims going forward. The CLO has stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.

Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2009-10. Given the CLO's advice, it is not possible to estimate the impact of the claims and it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2009-10 financial statements.

We continue to strongly encourage management, working with the Scottish Government Health Directorate, the CLO and other NHS boards to progress resolution of equal pay so that there is clarity over the Board's financial position.

We did not identify any further key risk areas during our audit of the financial statements.

Regularity

Regularity of transactions

Management has processes to record receipt of Scottish Government Health Directorate circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points.

Family health services

NHS National Services Scotland ("NHS NSS") processes family health services ("FHS") income and payments on the Board's behalf. Transactions are completed on the basis of self-certification by FHS contractors. Payment verification processes continue to operate on a quarterly basis and management provided a summary of activity to the audit committee at the end of the year. The Board complied with the requirements of the qualities and outcomes framework.

Patient exemption checking

The patient fraud protocol requires NHS Counter Fraud Services to provide an annual estimated level of fraud and error to each NHS board for the 12 months to December. Total estimated fraud represents income lost through patients fraudulently or mistakenly claiming exemptions against dental, pharmaceutical and ophthalmic treatment charges. Total estimated fraud within Dumfries and Galloway in 2009 was £0.2 million (*2008: £0.4 million*). We concur with management's view that the potential fraud / error is not significant and has not been reflected in the financial statements.

Service organisations

NHS NSS operates a number of systems and initiatives on behalf of NHS organisations in Scotland. Service auditors are appointed to provide assurance over control objectives agreed between NHS NSS and NHS boards in relation to the operation of these national systems. Service audits were conducted in accordance with Statement on Auditing Standard 70 ("SAS 70"), issued by the American Institute of Certified Public Accountants, in order to provide positive assurance over controls and to identify areas of control weakness.

Audit Scotland, as external auditor of NHS NSS, reviews the work of service auditors on behalf of auditors of other NHS bodies. This has enabled us to place reliance upon the work of service auditors of the practitioner services division of NHS NSS, the national logistics programme, national information and management technology systems.

The Board entered into agreement with NHS Ayrshire and Arran for the provision of managed technical services and application support services, which took effect from 1 April 2008. This agreement is part of the Board's participation in NHS Scotland's shared support services programme. NHS Ayrshire and Arran leads one of five consortia set up as part of the programme.

The Board received a SAS 70 service auditor report in respect of the financial ledger shared service which did not identify any weaknesses. We have placed reliance on these findings for our own responsibilities.

Use of resources

The Board met its financial targets – revenue resource limit, capital resource limit and cash requirement. The outturn against the revenue resource limit is consistent with the financial plan.

An additional underspend of £959,000 above the Board's target surplus of £2.2 million against the revenue resource limit was achieved at year end. This underspend was utilised in the acceleration of spending on a number of programmes scheduled for 2010-11, including expenditure on information management and technology, minor capital items and additional equipment for acute services following recommendations raised from ongoing work to mitigate healthcare acquired infection threats.

The Board achieved cumulative efficiency savings of £9.5 million at 31 March 2010 against a local delivery plan target of £9.6 million. The Board has set efficiency saving targets of £7.8 million for 2010-11 and as at May 2010 has identified saving schemes providing a total contribution of £5.9 million.

The 2010-11 financial plan anticipates maintaining a cumulative surplus to £2.2 million. Risks to the achievement of the plan include a current shortfall of £1 million in required efficiency savings to meet local delivery plan targets and ongoing medical staffing pressures requiring high usage of locums which may result in unanticipated overspends during 2010-11 and later years.

Performance against the three financial targets was as follows

£'000	Final Allocation	Outturn	Variance
Revenue resource limit	266,966	264,738	**(2,228)**
Capital resource limit	6,488	6,418	**(70)**
Cash requirement	277,000	276,910	**(90)**

The Board achieved all three of its financial targets for 2009-10. Management maintained its continuing commitment to the financial plan and this was evidenced by regular review of financial results, as well as routine monitoring of the progress of the Board's capital plan. Monthly reports displayed investigation of variances and implementation of corresponding corrective action to ensure that overall spending was maintained in line with annual forecasts within the Board's local delivery plan.

The surplus against the revenue resource limit was in line with management's forecasts submitted to the Scottish Government Health Directorate in 2009. Management intends to carry forward funding of £2.2m to 2010-11 of which £1.8 million has been ring-fenced for specific projects including oral health, alcohol misuse, ehealth strategy funding and breast feeding.

The capital plan for 2009-10 reflected expenditure of £10.2 million. During the year revisions to the capital plan including slippage of work on the acute mental health development of £2 million and delay of £2.1 million planned works at Lochfield Road resulted in an overall reduction in planned expenditure of £3.7 million. The Board agreed with the Scottish Government to amend its capital resource limit and to reserve reductions in funding for future years. This is in line with action taken in previous years due to forecast reductions in allocations in NHS Scotland budgets due to a combination of significant capital projects across NHSScotland and potential reductions in capital funding available from the Scottish Government.

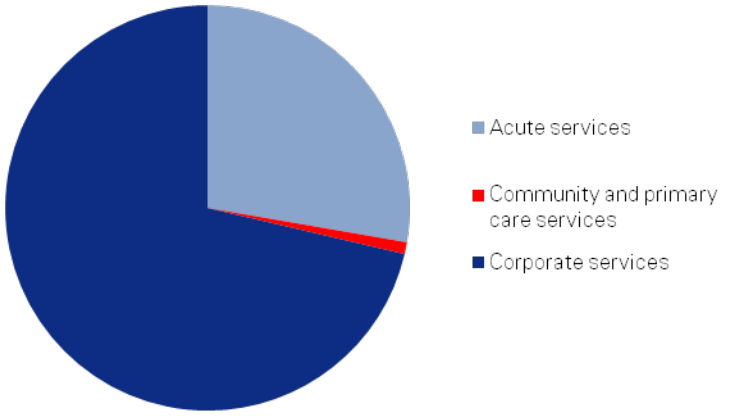
Financial management

Reconciliation of the financial plan and outturn reported in the financial statements

The table below summarises key movements during the year, after the year end, and during the preparation of the financial statements.

Movement	£'000
Financial plan forecast outturn against RRL	**2,200**
Under spend acute services	266
Under spend community and primary care services	9
Under spend corporate services	685
Accelerated 2010-11 expenditure	(930)
31 March 2010 SGHD return	**2,229**
Rounding adjustment	**(1)**
Final financial statements	**2,228**

Analysis of underspend by operating segment



The Board has reported an underspend of £2.2 million as at 31 March 2010 consisting of recurring savings of £2.6 million set off against a non recurring excess in expenditure of £0.4 million. This is in line with the forecast result per the Board's financial plan for 2009-10. Management undertake monthly review of the Board's performance under three key operating areas: acute services; community and primary care services; and corporate services. This is consistent with disclosures within the financial statements required in 2010-11 under IAS *Segmental reporting*.

At 31 March 2010 an overall underspend of £959,000 was achieved from these three segments.This consisted of a £242,000 increase in income, primarily from hospital and community health services, a £989,000 increase in non pay expenditure and a £1.7 million underspend in pay expenditure. Key movements within individual operating areas are as follows.

Acute services

Acute services reported an in year underspend of £266,000 consisting of a £292,000 underspend in payroll costs, a surplus in anticipated income of £13,000 set off against a £39,000 overspend in non pay expenditure. Key variances include savings from access and waiting times services of £158,000, savings from surgical services of £199,000 set off against an overspend in anaesthetics of £174,000.

Community and primary care services

This segment reported an in year underspend of £9,000 consisting of a £546,000 underspend in payroll costs set off against a deficit in anticipated income of £33,000 and an overspend in non pay expenditure of £503,000. Key variances include savings of £141,000, £146,000, £110,000 and £117,000 from the Stewarty local healthcare partnership, substance missuse, Wigtown local healthcare partnership and primary care expenditure respectively, set off against an overspend of £610,00 on prescribing.

Financial management

Corporate services

Corporate services reported an in year underspend of £685,00 consisting of a £868,000 underspend in payroll costs, surplus in anticipated income of £263,000, set off against a £447,000 overspend in non pay expenditure. Key variances include savings from operational property services of £368,000, savings form the Board's public health and finance departments of £165,000 and £254,000, respectively, set off against an overspend of £333,000 in expenditure on transfer of external resources.

Accelerated expenditure

Following review in February 2010 management forecast a potential total underspend against budgets of £1.2 million. In response to the anticipated underspend management accelerated expenditure planned for 2009-10. This resulted in £930,000 of planned expenditure for 2010-11 being brought forward into 2009-10. This included the purchase of additional equipment for acute services (cost £200,000), equipment purchases for the integrated community equipment store (cost £225,000) and additional minor capital expenditure on furniture, minor equipment and information management and technology (cost £238,000) coupled with minor miscellaneous expenditure in other areas.

The acceleration of expenditure in 2009-10 highlights the strong monitoring arrangements in place to measure current and forecast expenditure across the organisation and management's ability to identify and implement effective correction action to control year end variances against financial plans.

Efficient government programme

Under the programme, the Board had an efficiency target of 2% or £4.8 million for 2009-10 to give a cumulative target of 4% (£9.6 million). Targeted cumulative savings per the local delivery plan consisted of £9.1 million and £0.5 million of recurring and non recurring savings, respectively. Following identification of suitable savings schemes and amendments to department budgets this target was revised and the Board identified and achieved cumulative recurring savings of £9.5 million. This included identified savings brought forward from 2008-09 of £4.7 million. Key savings schemes during 2009-10 included:

- corporate department efficiencies (£509,000);
- energy and water (£570,000);
- local healthcare partnership efficiencies (£511,000);
- progress redesign to increase internal capacities (£600,000); and
- superannuation reduction (£529,000).

As part of the budgeting process for the year, agreed efficiency targets were set for each department which have been deducted from the opening budget position at the start of the financial year. A monitoring group was established to facilitate implementation of these savings.

Financial management (continued)

Financial planning

In April 2010 the Board approved a ten year financial plan for 2010-11 to 2019-20 which was submitted to the Scottish Government Health Directorate alongside the Board's local delivery plan. The 2010-11 financial plan anticipates a cumulative surplus of £2.2 million against the Board's 2010-11 revenue resource limit.

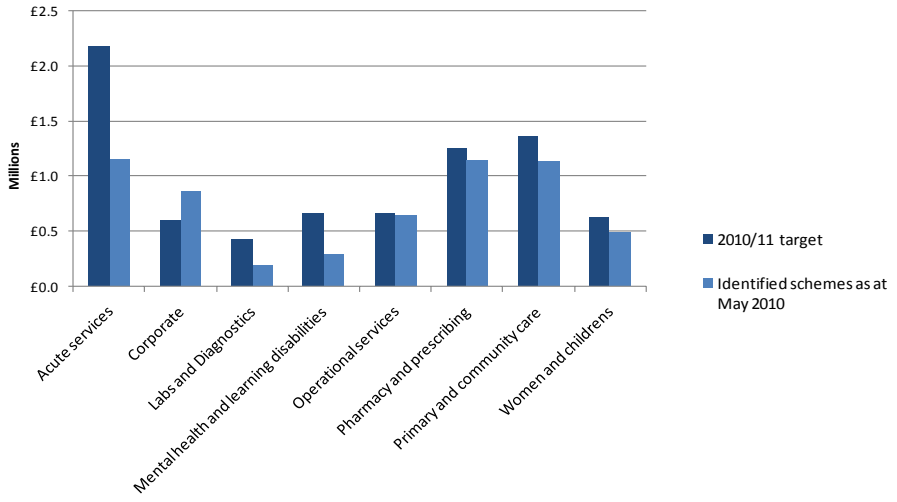
The financial plan for 2010-11 assumes utilisation of brought forward funding of £2.2 million of which £1.8 million has been earmarked alongside assumed non recurring allocations of £4.6 million ring fenced funding for projects targeting smoking cessation, breast feeding, drug and alcohol misuse. These areas are included within the mandatory 'HEAT' targets set by the Scottish Government Health Directorate achievement of which has been identified by management as 'challenging'. Financial assumptions include increases per annum of 1% for medical staff payroll and 2% for main non payroll expenditure and 2.15% for external contracts.

Within financial plans a sum of £2 million for 2010-11 and an annual sum of £1.5 million for 2011-12 onwards has been set aside to cover the costs of future regional and national developments, cost pressures and any other critical or must do developments. Management has identified £1.3 million as earmarked from the available £2 million for 2010-11, including coverage of £0.7 million of recurring over commitments from 2009-10.

Future financial plans assume a recurring surplus over the next five years which management anticipate will result in additional non-recurring flexibility. The non-recurring flexibility will be made available to assist the funding of capital development fees associated with the clinical strategy and to support prime efficiency projects to achieve desired efficiency targets.

Efficiencies

Under the third year of the efficient government programme, the Board is required to delivery efficiency savings of 2% during 2010-11. The Board's local delivery plan for 2010-11 identifies a requirement to deliver recurring cash efficiencies of £6.9 million for 2010-11.



Under the Board's cash releasing efficiency savings plan ("CRES") for 2010-11 a 4% target against budgets of £7.8 million has been identified. This results in a contingency of £0.9 million within financial plans in order to recognise the potential delay that some identified schemes may have in delivering efficiencies fully in their first year.

As at May 2010 management has identified planned schemes with anticipated efficiency savings for 2010-11 of £5.9 million. This represents shortfalls of £1 million and £1.9 million, respectively, against the local delivery plan and the desired target.

Financial management (continued)

Management has identified the £1 million shortfall against the local delivery plan as a key financial risk and directorates have been charged with responsibility for exploring further efficiency opportunities to rectify this deficit. Responsibility for monitoring this action has been charged to the Board's scrutiny committee. An efficiency strategy workshop was held on 4 May 2010 to assess the opportunities for delivering greater efficiencies over the next five years through innovative thinking and to identify strategic Board-wide schemes.

A key consideration incorporated into financial planning is the delivery over the medium to long term of the Board's clinical strategy. Significant capital and revenue investment will inevitably restrict the availability of funding for other projects that may arise. Efficiency targets incorporate £1 million per annum to be delivered locally to support the clinical strategy and represents the recurring surplus identified by management as required to build up sufficient reserves to fund the ongoing revenue implications of the strategy.

Capital plan

The ten year capital plan for 2010-20 highlights total anticipated net expenditure of £187 million, with £19.1 million earmarked for 2010-11. Key expenditure planned for 2010-11 includes rolling programmes of £2.2 million such as medical equipment and information management and planned construction works on the Board's acute mental health development of £14.2 million.

At 31 March 2010 the Board has 'banked' total carried forward spend from capital resource allocations of £18 million. This has been included within management's forecast for available funding of £107 million over the next ten years for which £88 million is anticipated to be provided from annual capital resource allocations. This results in an overall deficit of £80.6 million in available funding for planned capital projects.

Within the ten year capital is estimated expenditure of £129 million for the redevelopment of Dumfries and Galloway Royal Infirmary. This project in an integral part of future service redesign under the Board's clinical strategy. However, the full business case is yet to be completed and submitted for approval by the Scottish Government. This is a result of postponement of the consultation process for the clinical strategy and is reflected by deferral of previously planned expenditure on this project for 2010-11 to 2011-12 and later years. Management anticipate that the Scottish Government will provide support for work undertaken through the clinical strategy work being taken forward. However, the level and phasing of funding has yet to be agreed and there is therefore a significant risk in the event that funding levels are below expectations.

Responsibility for monitoring progress against the capital plan is charged to the board's capital investment group which will continue to manage the capital programme on behalf of the board within the agreed ten year plan. The primary focus of this group is the approval of the individual schemes within the rolling programme budgets and the scrutiny of business cases over £250,000 before being brought forward for approval.

Financial management (continued)

Key risks

Achievement of the 2010-11 financial plan will be challenging due to the need to reduce the carry forward of budgets at the year end. The diagram below summarises the key risks identified by management, together with additional risks identified during our audit work.

Key risks identified by management

- The financial plan requires the delivery of recurring efficiencies of £6.9 million to achieve financial balance for 2010-11. As at May 2010 there is a £1 million shortfall from identified efficiency saving schemes.
- The ongoing medical staffing pressures and continued high usage of locums and agency staff to cover the rotas resulting in increased in year spend will continue to give rise to financial and service pressures if the Board is unable to identify and implement a sustainable medical manpower model.
- Whilst £2m has been set aside to cover cost pressures and any additional national and regional pressures, the risk remains that this is either insufficient or that additional pressures emerge that the Board has not yet identified.
- A number of projects under the 2010-11 capital plan still require Board and Scottish Government approval. Any delay in the start of these projects is likely to have a material impact on the capital plan which would require to be reallocated by the board.

Corporate governance arrangements

We considered the corporate governance arrangements and, combined with the work of internal audit, have concluded that the framework has been designed and implemented appropriately. The Board has been selected as a pilot for the public election of board members. This will result in the direct election of 10 members in June 2010.

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, with the exception of some weaknesses noted, controls are designed appropriately and operating effectively.

The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. The statement complies with the Scottish Government Health Department's guidance.

Management has established procedures to consider individual national reports published by Audit Scotland and demonstrated good practice by completing a local self-assessment against a number of the reports issued during 2009-10.

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the board is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- the board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Governance framework

The integrated governance framework includes four governance committees of the board: healthcare governance, audit, scrutiny and staff governance. The terms of reference for each committee detail decision-making powers and delegated responsibility. The integrated structure is based on regular and open communication, enhanced by fortnightly meetings of the board management group comprising the executive directors.

The Board is one of two selected pilot boards for the introduction of public election of board members. This will result in the direct election of ten members in June 2010.

Corporate governance arrangements (internal audit)

Internal audit

Internal audit did not delivery its plan in full due to staff absences which resulted in 116 planned audit days being lost. A temporary auditor was brought in for an initial three month period to undertake work on audits that had been prioritised for completion to inform internal audit's annual statement of assurance. Of 26 audits completed, including 24 planned and two unplanned, 'moderate', 'significant' or 'comprehensive' assurance over systems and controls was provided for 88% of reviews. 12% of reports relating to mobile telephone use, Thornhill Hospital and Ettick Ward provided 'limited' assurance. These were not judged to have a significant impact on our audit approach . We relied on a number of reports including:

- financial planning and budgetary control;
- debtors;
- cash and banking
- ledger controls and reconciliations; and.
- capital assets.

We had planned to place reliance on a number of other reports including risk management and control environment. However, due to documented issues in completing audits this work had not been completed at the time of our audit, albeit that it did not have any significant impact on our approach.

Internal audit concluded that:

- the Board has adequate and effective internal controls in place;
- the accountable officer has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of this role; and
- the internal audit plan has been delivered partially in line with government internal audit standards.

The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. The statement complies with Scottish Government Health Department guidance.

Internal controls

Since our appointment as the Board's external auditors in 2006 we have reported identified weaknesses in the operation of key organisation wide and financial controls, some of these have been reported in more than one year. In previous years, management accepted most of our recommendations to enhance controls, but instances where controls do not operate on a consistent basis continue to arise. Areas where we have consistently identified weaknesses include controls over inventories and procedures for reviewing the Board's numerous policies, procedures and strategies.

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, with the exception of some weaknesses noted, controls are designed appropriately and operating effectively.

Prevention and detection of fraud and irregularity; Audit Scotland national reports

NHS Counter Fraud Services

In August 2009 NHS Counter Fraud Services requested the Board's participation in a trial project to validate the proposed new fraud risk assessment methodology. The methodology has been derived following an information gathering exercise of risk assessment methodologies being applied elsewhere in the public sector. The newly developed methodology looks to assess fraud risk, thus facilitating the identification and prioritisation of areas for proactive work and is based on sound scientific principles taken from the review of existing methodologies at the above bodies. NHS Counter Fraud Services anticipate that this will bring several benefits to NHS Scotland:

- enabling the objective identification and assessment of areas of risk to allow proactive allocation of resources;
- aiding design of Board specific or national proactive projects; and
- by considering several characteristics of each areas simultaneous, improve the chances of project bearing greater results than current methods.

Following discussions with the Board's fraud liaison officer it has been agreed that the validation exercise will take place after the completion of the upcoming board elections in June 2010.

We evaluated the Board's procedures and controls related to fraud as part of our audit work. The Board operates a fraud policy and action plan to provide guidance to staff in identifying the relative roles, accountability and responsibilities of those working within the organisation when considering the risk of fraud. As reported during the year, this is due to be reviewed following completion of the validation exercise.

A fraud log is maintained by the fraud liaison officer and regular updates on items referred to NHS Counter Fraud Services are submitted to the audit committee for consideration. Three referrals where made during 2009-10, but none has resulted in any significant identified loss to the Board.

Prevention and detection of fraud and irregularity; Audit Scotland national reports

National Fraud Initiative ("NFI")

The Board is again participating in the NFI exercise. We tested a sample of resolved matches and concluded that satisfactory evidence was available to support all matches noted as resolved on the NFI system. A summary of the Board's activity is shown below.

	Total matches	Number investigated	Volume of fraud identified	Value of fraud identified
2007	54	54	-	-
2009	364	54	-	-

All high priority matches have been investigated and resolved. The chief internal auditor has reviewed the outstanding matches and due to the high number, has selected a sample for full review to provide assurance over the risk of fraud arising from the remaining unresolved matches. Work over this review remains ongoing. However, due to reduced availability of resources within internal audit there has been limited progress since our interim review. It is essential that management ensure that adequate arrangements are in place to undertake planned review work over matches.

Prevention and detection of fraud and irregularity; Audit Scotland national reports (continued)

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of NHS Scotland. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at board level, as appropriate.

Management has established procedures to consider individual reports and demonstrated good practice during 2009-10 by completing a local self-assessment against a number of the reports considered during our audit. The board management group is responsible for the review of all Audit Scotland reports, before allocating a lead director who will report to the appropriate governance committee. In 2008-09 and 2009-10 we have reported action taken by management in response to a number of reports, which are summarised below.

Report topic (issue date)	Discussed by a committee	Noted by a committee	Self assessment performed	Local action plan prepared	Plans to feed back to a committee	Frequency of feedback
Managing the use of medicines in hospitals (April 2009)	✓	n/a	✓	✓	✓	Monthly
Overview of mental health services (May 2009)	✓	n/a	✓	✓	✓	Quarterly
Improving public sector purchasing (July 2009)	✓	n/a	✓	✗[1]	✗	n/a
Improving civil contingencies planning (August 2009)	✓	n/a	✓	✓	✓	Quarterly
Scotland's public finances :preparing for the future (November 2009)	✓	n/a	✗	n/a	n/a	n/a
Overview of NHS in Scotland performance 2008-09 (December 2009)	✓	n/a	✗	n/a	n/a	n/a

1 No formal action plan was prepared as management considered the Board to be adhering with all recommendations within the report.

The following reports have been discussed at a committee and management are currently undertaking further review before drafting action plans for further discussion.

- Improving public sector efficiency (February 2010);
- Managing NHS waiting lists (March 2010); and
- Review of orthopaedic services (March 2010).