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National Waiting Times Centre Board

Annual audit report to National Waiting Times Centre Board

and the Auditor General for Scotland

Audit: Year ended 31 March 2011

24 June 2011

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 National Waiting Times Centre 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

There has been continued commitment by the Board to improving service delivery through expansion of partnership working and frequent performance reporting and restructuring, with phase I of the significant reorganisation of the current directorate structure from five directorates to two clinical directorates, implemented from 1 April 2011. This process will continue throughout 2011. Due to the nature of this process, there are significant risks, but the Board is closely monitoring plans and their implementation.

We evaluated the arrangements for achieving Best Value surrounding efficiency savings and found that the Board demonstrated 'better practice' or 'advanced practice' in all areas assessed. There is still some scope to further improve performance in this area.

The Board achieved its three financial targets for the year recognising a £564,000 surplus. This position arose partly from the review of asset lives exercise and partly from increased income form other boards. This will be carried forward to 2011-12 and will be used to support routine building maintenance.

Achievement of the current years outturn included significant overspends in staff and clinical supply costs which were offset against additional efficiency savings.

The capital outturn was £0.126 million under-spent against the capital resource limit for the year.

The Board has achieved its target level of recurring efficiency savings for 2010-11 and achieved a further £0.5 million of recurring savings. In future years, the Board will have to make additional savings in order to achieve a balanced budget which will be challenging. Achievement of these savings will be managed through current financial monitoring procedures supported by the efficiency and productivity group.

We intend to issue unqualified audit opinions following approval of the financial statements and receipt of the signed management representation letters.

Headlines

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.

This report summarises our work for the year ended 31 March 2011.

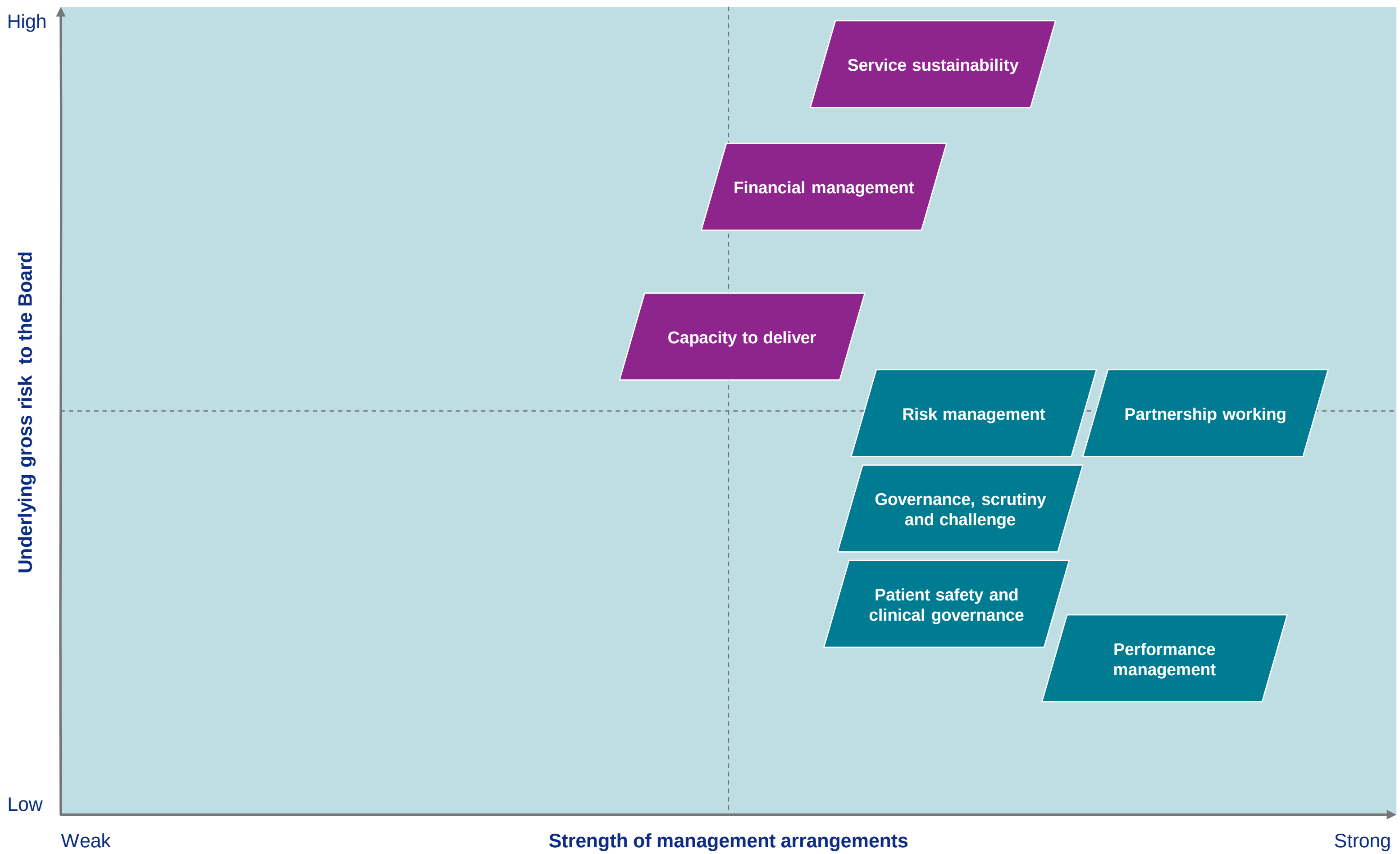
We wish to record our appreciation of the continued co-operation and assistance extended to us by Board staff during the course of our work.

Priorities and risks	
Management has made significant progress to enhance arrangements around service redesign and sustainability through implementation of phase one of a restructuring programme, reducing the current five directorates to two clinical directorates. Significant risks continue to exist, but internal processes reduce the likelihood and potential impact on the Board.	Page 4
We continue to report significant risks in respect of financial management and affordability despite the introduction of efficiency plans during the year. In our view, the risk that the Board does not meet its efficiency target continues to present ongoing challenges to recurring financial sustainability.	Page 4
Financial statements	
We have issued unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in those financial statements.	-
Use of resources	
The Board met its financial targets, reporting a total surplus of £563,000 against them.	Page 8
We validated management's completion of the Best Value efficiency toolkit, which concluded that arrangements were generally "better practice", and in some areas demonstrated "advanced practice".	Page 11
We assessed management's response to Audit Scotland's national reports on using locum doctors in hospitals; management has taken reasonable action to mitigate risks and improve processes at a local level.	Page 12
Governance	
There were no significant changes in governance arrangements during the year and the statement on internal control continues to confirm the existence of a comprehensive framework of internal control. There have been changes post year end as a result of the directorate restructuring.	Page 13
Internal audit completed their plan for the year and provided assurance over internal controls reporting that their work "*did not identify any critical control weaknesses that we consider to be pervasive in their effects on the organisation's overall system of internal control.*"	Page 13
Arrangements to prevent and detect fraud are embedded in internal controls, including processes to comply with requirements in respect of the National Fraud Initiative.	Page 13

Summary of arrangements

Competing risks and pressures continue to present new and recurring challenges. Overall, the impact of sector priorities present a moderate level of risks to the Board. Controls to mitigate risks are, in the main, towards strong.

The diagram summarises the potential underlying risks to achievement of strategic objectives, compared to the strength of management arrangements to mitigate these risks. The following pages summarises those areas where we believe that significant risks are inadequately managed, together with those where management arrangements are likely to mitigate or eliminate these risks to a greater or lesser extent.



Assessment of significant risks

Arrangements in respect of service redesign, financial management and affordability and capacity to deliver are likely to mitigate the impact of significant risks.

Service redesign and sustainability	The proposed redesign from five directorates to two represents significant change for the Board and there are risks it may not deliver the forecast alignment in the clinical pathway or the forecast efficiency savings.	The design and implementation of actions to mitigate the risks are effective. There has been continual scrutiny of the restructuring by the board and the senior management team throughout the year.
	■ In our view, risks exist but actions have been identified and processes implemented to address these risks. ■ The restructuring proposals were approved by the board and, through the work of the senior management team ('SMT'), phase one of the reorganisation was successfully implemented in April 2011. Phase two plans are currently under review by the board and SMT. Continual scrutiny of the restructuring will reduce the residual risk over the coming six months to ensure phase two is implemented successfully by September 2011.	
Capacity to Deliver	The Board is continually trying to identify areas where there is scope to expand the current service delivery to increase capacity. With all Boards under increasing financial pressures, there is a risk that there is a mismatch of the Board's supply with other Boards' demand.	The design and implementation of actions to mitigate the risks are effective. The Board liaises closely with other boards to ensure it is aware of needs as they arise and/or change.
	■ In our view risks exist, but actions have been identified to address these risks. ■ A workforce planning exercise was undertaken with internal audit which identified weaknesses in workforce planning. Departments now produce an annual workforce plan which will better identify any issues in this area. The Board also proactively looks at areas where there is excess demand and identifies plans to increase delivery in these areas, for example, the current expansion of orthopedic services.	
Financial management and affordability	The main risk affecting the Board is in relation to ongoing pay and some other cost pressures. This is likely to continue for the foreseeable future.	The design and implementation of actions to mitigate the risks are effective.
	■ In our view risks exist but actions have been identified to address these risks and these had a positive impact during the year. Staff costs will continue to be monitored as part of the monthly finance monitoring, but over time it is expected that pressure of staff costs will be reduced through both recruitment of new staff and the expansion of services, giving the Board the opportunity to realign the skills mix appropriately. ■ The Board should continue to closely monitor staff costs to ensure the anticipated reduction is achieved. Opportunities should continue to be sought to help reduce the current pressures they face.	

Financial statements preparation and audit process

Management anticipated risks around fixed assets and pay accruals; no audit adjustments were required and matters were concluded in a timely manner.

The Board continues to hold significant accruals in relation to payroll and associated costs reflecting a number of underlying issues, many of which are historic.

An impairment of £1.7 million was charged in the year in respect of capital projects. This qualified as annually managed expenditure and therefore did not impact on the Board's targets.

Areas of HIGH audit risk

Area	Value (£'000)		KPMG comment
	2010	2011	
Property, plant and equipment useful lives - depreciation	5,608	5,435	▪ In line with other NHS Scotland boards, the useful lives of the Board's property, plant and equipment were reassessed during the year. ▪ Following advice from the valuer, the effective life of the main building (with the exception of the estate store) was reassessed as 49 years (previously 43.5 years); the effective life of the hotel remains at 41.5 years. ▪ Revision to the depreciation charge as a result of the new methodology was reflected in core revenue expenditure; this resulted in a £236,000 reduction in depreciation for the year .
Tangible fixed asset s- valuation and impairment	1,712	1,745	▪ The Board carried out three major capital projects during the year relating to upgrading existing facilities as opposed to creating major new assets. Management engaged an external valuer to assess the level of 'value added' gained from the amounts incurred on these capital projects. ▪ Based on review of the valuer's report we are satisfied with the underlying reasons for the impairment in value processed by management.
Pay accruals	1,822	2,475	▪ The financial statements include £2.5 million of pay related accruals for various purposes, some of which have been carried for a number of years. Taking into account the relative size of the Board's activities, this is considerably higher than we expect from our experience across the sector. Employee termination costs totalling £736,000 are included in the accrual relating to a number of specific areas where there will be staffing changes as a result of reorganisation. ▪ From the evidence provided, we have concluded that management's approach to measurement of the accruals is reasonable. We continue to encourage resolution of the underlying issues as timely as possible.

Financial statements preparation and audit process (continued)

Management anticipated risks around fixed assets and pay accruals; no audit adjustments were required and matters were concluded in a timely manner.

Systems and controls
Preparation of the financial statements ■ Draft financial statements and supporting documentation were provided on 16 May 2011 which was later than in prior years. ■ The quality of schedules prepared by management were generally good, but there were some areas where improvements in the clarity and quality of back up schedules could be improved.
Control environment ■ Overall, management's approach to preparing the financial statements is efficient, but improvements could be made in respect of handover of information; this was due mainly to a temporary gap in staffing for preparation of the financial statements this year. ■ The standard of client schedules and required analysis was appropriate and there was evidence of accountability and ownership of working papers across the finance department. There were some areas however, where schedules had been prepared by staff who had now left the department and, although schedules had been handed over, detailed information around the processes was sometimes lacking.

Financial position

The Board met all three financial targets for the year.

The 2011-12 plan forecasts a breakeven position, achievement of which will be dependent on the receipt of funding from the West of Scotland boards.

The Board met its three financial targets – revenue resource limit, capital resource limit, and cash requirement.

The 2011-12 financial plan forecasts a cumulative outturn break even position against the revenue resource limit. Achievement of the plan will be challenging due to increased efficiency savings targets (£3.3 million) and continuing staff cost pressures.

Financial position

Performance against the three financial targets for 2010-11 was as follows:

	Final Allocation (£'000)	Outturn (£'000)	Variance (£'000)
Revenue resource Limit :			
- core	51,775	51,242	533
- non-core	7,685	7,654	31
Capital Resource Limit	4,368	4,242	126
Cash Requirement	53,273	53,273	-

The surplus against the revenue resource limit is a non-recurring position, partly as a result of the exercise to review asset lives (£234,000 increase in core income). There was also a favourable year end adjustment in income in relation to agreements with other health boards for heart and lung centre income. The additional income was offset mainly by overspends on staff costs and non-clinical supplies.

The 2010-11 capital funds availability was reduced by £2 million in year, as a result of the decision to postpone acquisition of the Magnetic Resonance Imaging scanner, now included in the 2011-12 capital plan.

The Board has achieved its target level of recurring efficiency savings and achieved a further £0.5 million of recurring savings. In future years, additional savings will be required to ensure a balanced budget.

The performance in 2010-11 highlighted key challenges for the Board in future years. Staff costs were overspent during the year as a result of incremental drift, increased costs of agenda for change and changes in skills mix. Management took steps during the year to review the workforce planning process and implemented a number of recommendations to resolve identified issues; however, risks remain around pay costs for future years and continued monitoring will be critical.

Financial planning

Management has prepared a financial plan for the financial years to 2015-16 in support of the Board's local delivery plan and workforce plan. This plan reviews the current financial position and details the key finance issues for future years, including the impact of pay pressures and efficiency savings.

The 2011-12 financial plan forecasts a break even outturn against the revenue resource limit of £53 million. The 2011-12 budget has been prepared based on the estimated 2010-11 outturn adjusted for efficiency savings, activity projections, estimated pay award and price increases.

The heart and lung centre has an estimated £2.3 million gap between agreed funding for the service compared with the cost of providing it. Bridging funding was received in 2010-11 in accordance with the original business plan. The West of Scotland Boards have agreed to underwrite their share of the gap for the next two years as part of the approved business case; there is a risk however, that continuing pressures on other Boards may affect their ability to fund this.

The capital plan for the next five years includes funding for the implementation of the clinical strategy and a rolling equipment replacement programme. The total capital allocation for 2011-12 is £5.3 million, including funding for replacement of the MRI amongst other assets. Risks remain over the availability of future capital funding.

Financial position (continued)

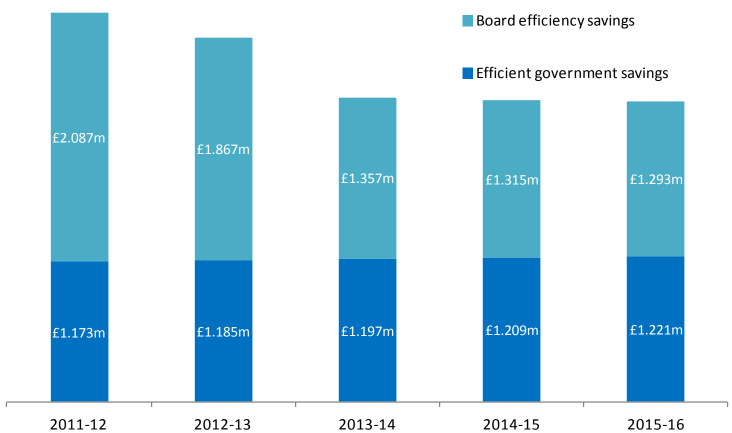
Efficiency savings for future years are detailed in financial plans.

Detailed plans for achievement of these have been formulated for 2011-12.

Achievement of savings in later years will be more challenging and risks exist around this.

Efficiency savings

The financial plan analyses the efficiency savings required to be achieved for the efficient government target and the further efficiencies necessary to achieve a break-even outturn for future years. The graph shows the level of efficiency savings required to be achieved by the Board over the coming five year period.



Management has acknowledged that achievement of these savings will be challenging and has set-up an efficiency and productivity group to consider how to secure these. This group is chaired by the director of finance and includes other executive directors. Detailed savings plans have been developed for 2011-12 which include timescales for implementation; responsibility for meeting savings has been delegated to project leads. Eighty four schemes have been identified which, if delivered, will achieve efficiency savings of £3.3 million per annum and will meet the Board's 2011-12 target.

Key risks

Achievement of the financial plan will be challenging due to the need to increase efficiencies year on year. The key risks identified are similar to the prior year and are summarised in the table below.

Key risks identified
▪ Successful delivery of the efficiency targets; ▪ Heart and lung running costs being higher than anticipated ; ▪ Increased staff costs as a result of 'agenda for change'; ▪ Waiting list risks and resulting increased financial implications; and ▪ Medical workforce planning issues.

Best Value

We have substantially completed a Best Value review of the Board's arrangements around efficiency.

This slide summarises our key findings to date.

Efficiency saving data is tracked and maintained by individual directorate accountants. However, this can be inconsistent between directorates.

Better practice

A more consistent approach across directorates to collect and monitor data would improve comparability of data.

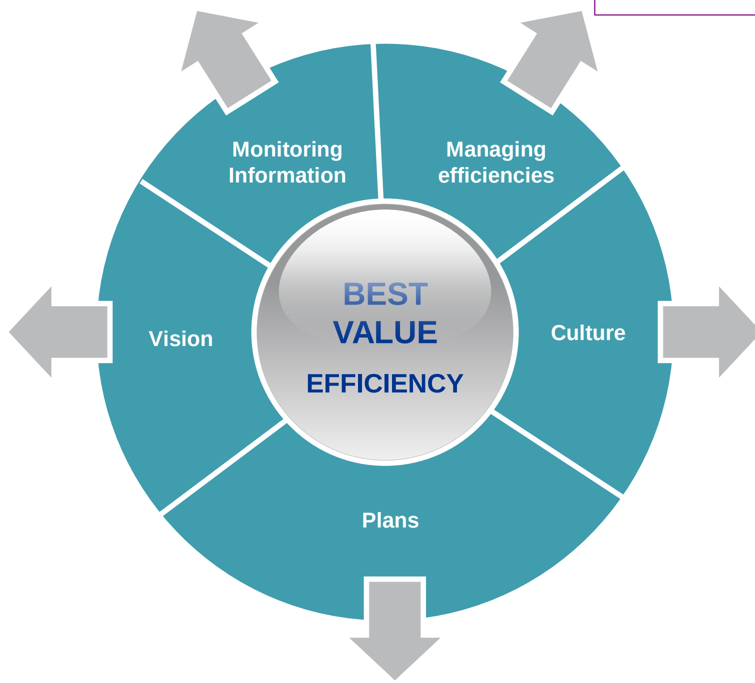
Efficiency saving information is reported at directorate finance meetings where variations from the plan are reported. Updates on efficiencies are reported at committee level on a regular basis to ensure appropriate monitoring.

Advanced practice

The finance director is responsible for promoting efficiency. Efficiency is communicated to all staff through the staff newsletter but there is no incentive scheme in place. There is scope for improvements to help better understand how costs change in response to activity.

Better practice

Completion of the LEAN work will enable the Board to better identify how costs are related to activity levels.



The concept of continual efficiency improvement is evident through the organisation.

Although efficiency improvements are built into the local delivery plan and financial plan, there is no specific strategy for efficiency; efficiency savings are monitored within the monthly finance report.

Better practice

A specific efficiency strategy would help the Board demonstrate advanced practice in this area.

Each department identifies efficiency schemes which are then incorporated into the financial plan. Workforce planning and the local delivery plan ensure that services are not adversly affected.

Advanced practice

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of NHS Scotland. We are required to report on Boards' response and reaction to these throughout the year.

Our work has found that the Board has appropriate procedures and controls in place in this area.

Audit Scotland national studies

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 procedures in place to consider individual reports to the Board and the audit committee. In addition, where appropriate, management will carry out a self-assessment against the national study and implement local action plans as required.

One relevant study has been published in the relevant time period (*Using locum doctors in hospitals*) and we submitted a short return to Audit Scotland on the Board's response in February 2011. This noted that the report was discussed at the performance and planning committee in August 2010 and the audit committee in February 2011. An action plan had been produced in response to the study.

We will provide further information to Audit Scotland on relevant reports in July 2011.

Improving public sector purchasing

Audit Scotland's corporate plan 2009-12 reinforces a commitment to maximising the impact of their work and to providing more evidence of impact. As part of this process auditors are required to provide information on how bodies respond to national performance audit reports.

In 2010-11 a more targeted follow-up was required in respect of the Board's actions following publication of the joint Accounts Commission / Auditor General for Scotland report, "Improving Public Sector Purchasing" published in July 2009 ("the Report").

Our work centred around the answers to three questions to facilitate analysis of the Board's arrangements. Overall, taking into account the size and nature of the Board, we found that processes are appropriate and mitigate the issues highlighted by the report. There are some areas where the Board should consider the potential for improvement, but management note that benefits must be weighed against any financial implications.

Corporate governance framework and supporting arrangements

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

Corporate governance framework	The Board maintains an integrated governance framework to provide an appropriate structure for maintaining decision-marking, accountability, control and behaviour. The integrated governance framework includes three governance sub-committees of the board: audit, staff governance, and clinical. The terms of reference for each committee detail decision-making powers and delegated responsibility. The integrated structure is based on regular and open communication, which is enhanced by quarterly meetings of the committee chairs.
Statement on internal control	The statement on internal control provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. This statement is in compliance with guidance issued by the Scottish Government Health Directorate.
Internal controls	Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points, confirms that controls are designed appropriately and operating effectively. However, we note that weaknesses exist over payroll reconciliations and bank reconciliations. Recommendations have already been agreed with management.
Internal audit	Internal audit have submitted all but one of their planned reports for the year. We have relied on the report, in respect of financial systems assurance. This report does not make any ‘critical’ recommendations, but the review highlighted some ‘minor’ risk control weaknesses over authorisation of sales requisitions and retention of supporting documents and made recommendations to address these. The Board received internal audit’s annual report in June 2011, which concluded that that their work “*did not identify any critical control weaknesses that we consider to be pervasive in their effects on the overall systems of internal control*”.
Fraud and irregularity	We evaluated the procedures and controls related to fraud to be designed and implemented effectively. The Board has a dedicated fraud liaison officer and have organised workshops in the year, communicated details of the fraud helpline to staff trough the staff newsletter and the staff intranet to raise awareness of fraud. Health bodies continued to participate in NFI during the year. From the 2011 data, the Board had 238 matches (*2009 NFI, 193 matches*) and have investigated 77 of these, to date, which is in line with our expectation at this stage of the process. 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.

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