

NHS Grampian

Annual report on the 2010/11 audit



Prepared for Prepared for NHS Grampian and the Auditor General for Scotland
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

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Key messages

2010/11

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2010/11 we assessed the key strategic and financial risks being faced by NHS Grampian. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified audit report on the financial statements of NHS Grampian for 2010/11. 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.

The board achieved all its financial targets in 2010/11 and returned a saving against its total Revenue Resource Limit of £0.049m. In 2010/11 the board also achieved its savings target of £34 million. The board's sound financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to be addressed promptly.

In 2010/11 NHS Grampian met or exceeded a number of challenging performance targets set by the Scottish Government and, in a number of areas, performance continues to improve. However some performance targets were not fully achieved and in those cases the board has established actions to improve performance.

NHS Grampian is committed to a process of continuous development and improvement. This is particularly evident from the continued work of the Efficiency and Productivity Programme Management Office. The board has arrangements in place to develop systems in response to relevant reviews and developments, including the Scottish Government's most recent guidance on Best Value and from consideration of Audit Scotland national reports.

Through the work of the Change and Innovation Programme, NHS Grampian keep all their work practices under continuous review. This together with the on going major capital projects should ensure that the board is in a better position to meet the challenges as it continues to shift the balance of care from the acute sector to the community.

The board remains committed to ensuring that workforce plans are properly aligned to service and financial plans. In 2010/11 the board's workforce reduced by 697 Full Time Equivalents (FTE) mostly through natural turnover.

Overall, the corporate governance and control arrangements for NHS Grampian operated satisfactorily during the year. These include an effective Audit Committee which challenges senior management on key issues as appropriate. The board is supported by a robust internal audit function.

Outlook

The position going forward is becoming even more challenging than in previous years with limited increases in funding, increasing cost pressures and challenging savings targets. For 2011/12 the board is dependant on achieving savings of £21m, in order to maintain its financial position. This is particularly challenging given cost pressures arising from the effects of annual pay growth, increasing prescribing costs and volatile energy costs.

It is likely that the achievement of the 2011/12 cost savings plan will involve reductions in workforce. It is important that the process for any reduction is well managed and aligned with business and financial plans. In particular, through succession planning, the board should ensure appropriate knowledge and experience is retained among key officers to maintain the board's capacity to deliver its services.

The significant financial challenges that the board will face in 2011/12 and beyond will require the board to prioritise further in its use of resources. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

The Report on the Future Delivery of Public Services by the Christie Commission was published on 29 June 2011 and recommends that "Public service organisations should work to extend and deepen a local partnership approach, building on, but going well beyond the current community planning partnership model." The increased emphasis on partnership working will present additional challenges for the board to demonstrate the benefits of shifting the balance of care from acute to primary care and to identify shared initiatives that will help it secure future funding from the Change Fund.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of NHS Grampian. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHS Grampian.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that NHS Grampian understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the audit committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements.
5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.
6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Director's Report, statement on internal control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of NHS Grampian for 2010/11 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
11. NHS Grampian is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.
12. We have also reviewed the board's statement on internal control and concluded that it complies with Scottish Government guidance.

Regularity

13. 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 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.

Accounting issues

Accounts submission

14. As agreed, the unaudited accounts were provided to us on 09 May 2011 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS Grampian staff allowed us to conclude our audit within the agreed timetable as outlined in our Annual Audit Plan.
15. As required by auditing standards we provided our proposed opinion and reported to the Audit Committee the main issues arising from our audit of the financial statements on 24 June 2011. The main points were as follows:

Presentational and monetary adjustments to the unaudited accounts

16. A number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM. There were also a number of monetary changes identified during the audit process which were adjusted within the audited financial statements. These did not affect performance against the board's financial targets. In addition, several issues were identified relating to the timing of expenditure, where if adjustments were made would have had a net effect of decreasing by £0.708 million the operating costs for the year. The net impact on the balance sheet would have been that net assets increased by £0.708 million.

Equal Pay Claims

17. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and 135 (2010, 155) of these relate to NHS Grampian. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.
18. Developments over the past year have slowed the progress of claims and led to a reduction of claims going forward. The CLO have 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 any financial impact they may have. The NHS Scotland 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
19. 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 2010/11. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims. It has been agreed that disclosure as an un-quantified contingent liability remains appropriate for the 2010/11 financial statements of affected NHS boards.
20. We continue to strongly encourage NHS Grampian management, working with Scottish Government Health Directorates, the CLO and other NHS boards to form a view of the

potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.

21. As with other boards, NHS Grampian has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities could have an impact on the board's financial position.

Risk Area 1

Prior year adjustments - cost of capital

22. The 2010/11 FReM removed the requirement for boards to charge a notional cost of capital in their accounts. This was a change in accounting policy which was reflected in the financial statements of NHS Grampian with appropriate amendments made to prior year statements. The net effect was to reduce the 2009/10 operating costs by £11.4 million.

Change in estimation of asset lives

23. During 2010/11 NHS Scotland Health Directorates Director of Finance wrote to all Board Finance Directors requesting that a revised methodology for the calculation of assets lives, initially developed by PricewaterhouseCoopers LLP (PWC) for NHS Greater Glasgow and Clyde, should be implemented on a consistent basis across NHS Scotland. The SGHD commissioned PWC to support this work within each NHS Board. The revised methodology takes account of patterns of consumption and maintenance and preservation spending. This approach aligns the lives of the less significant elements with the overall life of the building so that they can be depreciated over that period. As a result, it is intended that the annual depreciation charge more faithfully reflects the pattern of consumption of the asset. The impact of this revised methodology, when applied to NHS Grampian's asset base, resulted in a significant reduction in the board's annual depreciation charge (£2.8 million). This saving contributed to the delivery of the board's financial targets for the year. In our opinion this approach is reasonable and consistent with accounting standards.

Outlook

Endowments

24. As a result of an agreed derogation from the FReM NHS Scotland boards were not required to consolidate endowment funds within their 2010/11 financial statements. The Treasury and Scottish Government have delayed the consolidation of NHS Endowment Funds until financial year 2013/14.

Heritage assets

25. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. From 2011/12 the board will be required to separately disclose any heritage assets. The board should conduct a review to identify any such assets.

Audit appointment for 2011/12

26. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for NHS Grampian will be Deloitte LLP. As this is the last year of our audit appointment, we would like to acknowledge the good working relationship that existed during our current appointment term with NHS Grampian and thank officers and members of the board and committees for their assistance during the last five years. We will be meeting with the incoming external auditors, later in the year, as part of a managed changeover process.

Financial position

27. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
28. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
29. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2011

30. NHS Grampian is required to work within the resource limits and cash requirement set by the SGHD. In 2010/11, the SGHD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital.
31. The board achieved all its financial targets in 2010/11 as outlined in Table 1 below:

Table 1: 2010/11 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance	% Variance
Revenue Resource				
Core	757,967	757,918	49	0.01
Non Core	28,343	28,343	-	-
Capital resource				
Core	59,753	59,753	-	-
Non Core	-	-	-	-
Cash position				
Cash requirement	887,000	886,786	214	0.02

32. The board has achieved a core revenue surplus of £0.049 million. Historically, boards have relied upon a measure of non recurring funding to achieve financial targets. However, with the tighter financial settlement compared to the past and reduced flexibility within expenditure

budgets, there is less scope for reliance on non recurring income to achieve financial balance as NHS boards seek to rationalise their cost base.

33. In 2010/11 the board recorded an underlying deficit of £2.02m which represented the excess of recurring expenditure commitments over recurring funding carried forward into 2011/12. This represents an additional cost challenge for the board to manage in 2011/12.

Financial sustainability and the 2011/12 budget

34. Uplifts in financial settlements have been reducing in recent years. In 2009/10 there was a general uplift of 3.15%, in 2010/11 the corresponding figure was 2.42% (inclusive of a supplementary uplift of 0.3%) while the core funding uplift for 2011/12 is 1.8%. Given the current economic conditions and the impact of national spending priorities, there is also a risk that funding uplifts will be lower in future years. These pressures will have a significant impact on long term financial planning and the control of pay and non pay costs.
35. The board plans to break even in 2011/12 although it is facing significant cost pressures with additional cost projections of £43.6 million, including the full year impact of the increase on VAT (£2.2 million) and the board's share (£2.6 million) of sharply increased annual expenditure levels on the settlement of clinical/medical negligence claims across NHS Scotland. In addition there a number of further key cost pressures:
- **Growth in prescribing costs:** The rate of growth in prescribing costs in 2011/12 compared to actual expenditure in 2010/11 is estimated to be 3.5% in primary care and 7.5% in acute services before any saving initiatives. For 2011/12 prescribing growth and inflation costs increases are likely to be in the order of £4.7 million. The board expects to achieve costs savings of £1.5 million in 2011/12 through a wide range of initiatives thereby containing net overall prescribing expenditure growth within £3.2 million. The scale of the costs savings and the wide range of initiatives which require to be successfully implemented present a medium level of risk for the board.
 - **Pay growth:** The board anticipates that pay growth in 2011/12 will be £5.8 million as a result of the provision for a living wage, incremental pay progression, changes to National Insurance Contribution thresholds and Agenda for Change (AfC) pay progression.
 - **Investment to secure delivery of access targets:** The board incurs significant expenditure to achieve national access targets. In compiling its financial plan for 2011/12, the board has assumed that it will require to deploy an additional £3.6 million to secure the achievement of new national access targets. The key risk is that provision may not be sufficient.

Financial planning to support priority setting and cost reductions

36. The cost challenges facing the board, as outlined above, are significant and in some cases there is an element of uncertainty about further potential increases in costs. The board's financial plan is dependent on its ability to implement a comprehensive costs savings plan which will release £21 million of recurring costs savings in 2011/12.

37. The cost savings are to be achieved through a number of means including, service redesign; more efficient procurement practices; improvements in clinical productivity and continued adherence to good practice guidelines to manage spend on a range of management and administration costs.
38. The delivery of the costs savings plan in 2011/12 will be more challenging than it has been in recent years. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Failure to achieve planned cost savings will impact on the board's ability to achieve break even position.
39. The costs savings plan is very challenging and there is a risk that some elements may not be achievable. It is therefore important that the board closely monitor costs in order to take remedial action through supplementary cost savings schemes.

Risk area 2

Workforce planning

40. Staff costs account for approximately 65% of core board expenditure and therefore any significant cost savings will necessarily involve staff reductions. In 2010/11, the workforce reduced by 697 Full Time Equivalent (FTE) or 5.6% of the total workforce. The majority of this reduction was due to natural turnover and redeployment although costs of £2.3 million were incurred in agreeing voluntary severance packages with 31 staff.
41. With a cost savings programme of £21 million for 2011/12 it is likely that the board will look for further staff reductions to reduce its cost base. The board plans to achieve the majority of manpower savings through natural turnover and redeployment. This will be achieved through initiatives such as the Safe and Affordable Workforce (SAW) and supported by the Safe and Affordable Nursing Establishment (SANE) project which has already seen 13% of posts redesigned.
42. It is important that the board retains the right staff with the right skills and has effective succession planning arrangements in place to maintain its capacity to deliver. This is particularly relevant as a number of senior executives and managers have recently left or are planning to leave the organisation. These officials have extensive knowledge and experience of the health service which will be difficult to replace in the immediate short term.

Risk area 3

Outlook

Financial forecasts beyond 2011/12

43. The board's 2011/12 financial plan provides indicative figures for the level of cost savings needed in 2012/13 (£22.8million) and 2013/14 (£33.7million) in order to achieve financial balance. The majority of the cost savings in each year are expected to be generated from recurring sources. These levels of savings will be extremely challenging since in the previous four years many of the more readily achievable savings initiatives will have been implemented.

44. The financial plan assumes that future funding uplifts will be of the order of 1.5%. This combined with growing cost pressures, will make the delivery of cost savings even more important.

Risk area 2

Significant financial risks

45. In 2010/11 the board's cost savings plan was pivotal to the achievement of financial balance. The plan set a cost savings target of £34 million which was achieved. The board's ability to achieve financial balance is again largely dependent on it successfully developing and implementing a comprehensive cost savings plan. For 2011/12, the board needs to achieve £21 million of cash releasing savings which is the equivalent of 3% of its Revenue Resource Limit. This is a significant challenge to the board particularly as this is the fourth consecutive year in which it is required to achieve a cost savings targets to maintain a balanced financial position.

Risk area 2

46. Capital allocations for 2011/12 have been substantially reduced and NHS Grampian will move from receiving a formula capital allocation of £28 million in 2010/11 to £7.9 million in 2011/12. The board will receive specific additional funding allocations in 2011/12 to continue projects committed in previous years: £41.1 million to meet legal commitments on the Emergency Care Centre, Chalmers Hospital and the Foresterhill Energy Centre; £10.6 million for the Radiotherapy equipment replacement programme and £5.1 million to cover land purchase and other enabling works for the Aberdeen Health and Care Village and Woodside Medical Centre projects. The reduced formula capital allocation of £7.9 million, however, restricts the availability of resource that can be applied to elimination of the board's backlog maintenance requirement.
47. The board's backlog maintenance totalled £124 million at the end of April 2011, with £58 million of this related to 'high' and 'very high' risk categories. Risks associated with this are varied but include the financial risk that substantial unplanned investment may be required following on from a variety of inspections that may demand closure of premises or urgent refurbishment to comply with statute. The board are taking steps to ensure that all property investment makes sufficient inroads to eliminating backlog maintenance and this is monitored by the Asset Investment Group.

Risk area 4

48. The Scottish Government has secured a substantial amount of revenue funding that will be used to support public sector bodies in financing developments through Scottish Futures Trust mechanisms such as Hubco and non profit distributing (NPD) partnerships. NHS Grampian is seeking to take advantage of such financing facilities with plans for the Aberdeen Health Village, a replacement Woodside Medical Practice and the proposed Forres Health Centre progressing towards their conclusion.

Pension costs

49. Following the advice of the Scottish Government, Note 24: Pension Costs reflects a net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. Note 1 of the accounts, Accounting Policies, states that the most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every four years, a more up to date valuation would have been expected to have been reflected in the 2010/11 accounts.
50. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity to the adequacy of current contributions to meet the future commitments of the Scheme.

Governance and accountability

51. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
52. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
53. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies’ corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
54. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

55. The corporate governance framework within NHS Grampian is centred on the board which is supported by a number of standing committees and fora that are accountable to it.

Committees

• Audit	• Clinical Ethics
• Clinical Governance	• Discipline (for primary care contractors)
• Endowments	• e-Health
• Patient Focus and Public Involvement	• Performance Governance
• Pharmacy Practices Committee	• Research Ethics
• Service Strategy and Redesign	• Staff Governance
• Spiritual Care	

Fora

• Area Clinical Forum	• Grampian Area Partnership Forum
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56. The following paragraphs provide a brief comment on the main standing committees of the board including their roles and responsibilities:

Audit Committee: Its purpose is to assist the board to deliver its responsibilities for the conduct of public business, including the stewardship of funds under its control. In particular, the Committee provides assurance to the Board that an appropriate system of internal control has been in place throughout the year. The Committee is assisted by both internal and external audit and senior officials are invited, as appropriate, to respond to auditors' reports.

The Clinical Governance Committee: Oversees clinical governance in the three Community Health Partnerships and the acute sector. In particular, the Committee seeks to give assurance to the Board that appropriate systems are in place, which ensure that clinical governance and clinical risk management arrangements are working effectively to safeguard and improve the quality of clinical care.

Staff Governance Committee: Its role is to provide assurance to the Board that NHS Grampian meets its obligations in relation to staff governance under the National Health Service Reform (Scotland) Act 2004 and the Staff Governance Standard. Its aim is to support the creation of a culture where the delivery of the highest possible standard of staff management is understood to be the responsibility of everyone working within the system and is built upon partnership and collaboration.

Performance Governance Committee: (PGC) The PGC has delegated responsibility from the NHS Board to monitor and support dynamic performance monitoring, assessment and management arrangements across NHS Grampian. The PGC also has delegated responsibility for ensuring that risks are identified and managed effectively across the organisation. It should regularly receive reports about both the strategic risk control plan and the corporate risk control plan.

The Patient Focus and Public Involvement Committee: Established to ensure that the NHS Board discharges its legal obligation to involve, engage and consult patients, the public and communities in the planning and development of NHS Grampian's strategic and corporate agenda.

57. We have considered the work of these committees and are satisfied that they have worked effectively throughout the year. In particular, the board has an effective Audit Committee which challenges senior management on key issues as appropriate.

Patient safety and clinical governance

58. In 2010/11, the board continued to work with NHS Quality Improvement Scotland (NHSQIS) to support the implementation of the clinical governance and risk management standards to ensure that clinical governance principles are embedded in local practice. This will be continued with the successor organisation Healthcare Improvement Scotland.
59. The Healthcare Environment Inspectorate's (HEI) remit is to undertake inspections in each acute hospital in NHSScotland at least once every three years. These inspections monitor

governance, practice and compliance with issues. A number of NHS Grampian hospital sites have been inspected by HEI in the past year:

- Aberdeen Maternity Hospital (April 2011)
- Dr Gray's Hospital Elgin (April 2010)
- Royal Aberdeen Children's Hospital (Nov 2010 & May 2011).

60. Overall the results of the HEI inspections have been satisfactory although some areas for improvement were identified in relation to standards of hygiene and protocols. The board has put action plans in place to address issues raised by the HEI.
61. NHS Grampian has an HEI Group at each site with specific responsibilities for overseeing the standards and implementation of improvements at hospitals within NHS Grampian. In addition, a Corporate Inspection Team has been set up with a current objective being to embed the key principles of the NHSQIS standards into everyday practice.

Partnership Working

62. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. The board has undertaken significant work in partnership with local authorities in establishing two Community Health Partnerships (CHPs) and a Community Health and Social Care Partnership [CHSCP] to provide care and public health services in a local setting to meet the needs of the local population.
63. CHP's provide health care based services to people in a local setting while CHSCP's also provide social services within the same facility. The CHPs and CHSCP have continued to work with the Acute Sector to support the redesign and delivery of pathways of care to ensure the right care is delivered at the right time and in the most appropriate place.
64. Performance management arrangements differ to a degree within each CHP but have been developed in line with the board's overall performance management framework as well as that of the individual local authorities. Each CHP has a performance scorecard which is used for performance review purposes with direct links to delivery of NHS Grampian's strategic objectives. CHP management participate fully in NHS Grampian's Operational Management Team and Cross System Performance Review meetings which ensure progress in line with plans and targets.
65. NHS Grampian also works in collaboration with NHS Orkney and NHS Shetland in both clinical and non clinical service areas. Partnership agreements are in place for short term and longer term programmes and are overseen by the Partnership steering group involving the three board chief executives. In October 2010 a short survey by way of questionnaire was undertaken to evaluate the benefits being derived from the Partnership Arrangements. All respondents felt that relations between the boards had strengthened as a result of the partnership.

Internal control

66. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
67. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2010/11 PricewaterhouseCoopers LLP, the board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant weaknesses that required specific mention in the Statement on Internal Control.
68. As part of our audit we reviewed the high level controls in a number of NHS Grampian systems that impact on the financial statements. This audit work covered a number of areas including trade receivables, trade payables and general ledger. Our overall conclusion was that NHS Grampian had adequate systems of internal control in place in 2010/11. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management.

Internal Audit

69. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of the internal audit function in November 2010 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place.
70. We placed reliance on aspects of their work in a number of areas and in particular Key Financial Processes. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Statement on internal control

71. The Statement on Internal Control (SIC) provided by the NHS Grampian Accountable Officer reflected the main findings from both external and internal audit work. The SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.
72. The SIC drew attention to the establishment of an Induction Steering Group to revise and improve the Staff Induction Programme, plus the revision of Health and Safety policies and procedures and the establishment of a new Health and Safety Committee at a regional level. It also refers to the NHS Board's commitment to best value principles, with processes in place to ensure that it continuously focuses on improving performance. In particular, NHS Grampian

has completed a comprehensive baseline assessment against the five generic and two cross cutting themes defined in the guidance to Accountable Officers in relation to their duties for Best Value. This together with the work of the board's Efficiency and Productivity Programme Management Office (EPPMO) will help drive improvement and embed best value across all services.

Review of staff earning over £100,000 per annum

73. The Cabinet secretary had asked NHS boards for assurance that earnings paid to those staff earning over £100,000 complied with relevant policies and guidance. Auditors were also requested to sample check earnings over £100,000 to give additional assurance on validity of the figures. We did not identify any matters that in principle indicated that the board had been in breach of relevant national policies and guidance relating to pay matters. We reported our findings to the Chairman of the board on 29 March 2011 to enable him to reply to the Cabinet Secretary by the required date of 31 March 2011.

Prevention and detection of fraud and irregularities

74. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
75. NHS Grampian has a comprehensive range of measures in place to prevent and detect fraud including Standing Financial Instructions, a Code of Conduct for staff and policies covering 'whistleblowing' and fraud. The board has also entered into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS).
76. The board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. Additionally, the board has agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2010/11 these checks included verification against patient records, requesting patients to treatment by letter, visits to practices and examination of patients.

NFI in Scotland

77. In 2010/11 NHS Grampian took part in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
78. It allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

79. As part of our local audit work we monitor the board's approach to the NFI. The board is proactive in preventing and detecting fraud and participates in the NFI. Although NHS Grampian received details of NFI data matches in January 2011 it has not yet undertaken a review to identify areas for further investigation. We would have expected some progress to have been made in this area.
80. The Audit Scotland report *The National Fraud Initiative in Scotland; Making an Impact* (May 2010) highlighted that much of the information used in the last NFI round was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.
81. The current NFI round is being carried out under new powers approved by the Scottish Parliament in terms of the Public Finance and Accountability (Scotland) Act (as amended) and which came into force from 20 December 2010. These provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies involved, and allow data matching to be used to detect other crime as well as fraud.

Standards of conduct and arrangements for the prevention / detection of bribery and corruption

82. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in NHS Grampian are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

Partnership Working

83. An essential element of fulfilling the vision of a less specialist based health service is collaborative working with partner bodies, particularly local authorities and voluntary organisations. Financial settlements for local authorities have been very tight for the 2011/12 financial year and are predicted to be so for some years to come.
84. The SGHD has made funding available through the pilot Change Fund which offers financial incentives to partners to work together effectively. NHS Grampian is planning to take advantage of £6.8 million in 2011/12 for community expenditure in conjunction with local authorities and voluntary groups. They also currently provide "resource transfer" money of £35 million for shifting the balance of care. Given the tighter funding regime across the public sector, including recent local authority budgets, there is a risk that this planned funding is put under increased pressure. This risk along with the short timescales for planning the use of funding and implementing those plans could also mean that relationships become strained.

Risk area 5

Best Value, use of resources and performance

85. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
86. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
87. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
88. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.
89. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
90. This section includes a commentary on the Best Value / performance management arrangements within NHS Grampian. We also note any headline performance outcomes / measures used by NHS Grampian and comment on any relevant national reports and the board's response to these.

Management arrangements

Best Value

91. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
92. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

93. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting).
94. NHS Grampian is committed to best value and has arrangements in place to help ensure continuing performance improvement. The board also has arrangements in place to develop systems in response to relevant reviews and developments, including consideration of Audit Scotland national reports.
95. In 2010/11, NHS Grampian carried out a review across the five themes and two cross cutting themes to establish a baseline against which to measure future progress. The board is also subject to an annual review process by the Scottish Government Health Directorates, again with plans developed to address any issues raised.

Service Redesign

96. The publication of NHS Grampian's health plan for 2010-2013 represents a major redevelopment of services, shifting the balance of care from hospitals to the community. Key features of this are:
- The Board's Capital Plan, including a new Emergency Care Centre being built at Foresterhill in Aberdeen, the Aberdeen Health Village and Foresterhill Energy Centre. The latter will provide heating and electricity needs for the next 20 years helping to reduce energy costs by approximately £2 million per year and carbon output by 800 tonnes per year. The Board's Capital Plan 2011/12-2013/14 noted that the capital allocations from SGHD had been reduced considerably. SGHD has confirmed its commitment to £80 million over the next two years to fund these projects.
 - The Change and Innovation Programme led by the Strategic Management Team and supported by the Continuous Service Improvement (CSI) leadership group. CSI is NHS Grampian's change methodology and focuses on 6 main projects (procurement; unscheduled care; maternity services; theatre utilisation; length of stay in hospital and community nursing) which are essential to reduced cost delivery. All members of staff are encouraged to use the methodology in reviewing their own working practices and procedures.
97. In addition, to drive forward service redesign the board has:
- Established an Efficiency and Productivity Programme Management Office (EPPMO) which has responsibility for co-ordinating the board's cost savings programme by bringing

together the various work streams and supports budget managers in identifying changes to services that will provide significant reductions in costs. The EPPMO acts as a hub of expertise identifying and delivering strategic cost savings options.

- Implemented the Safe and Affordable Nursing Establishment project which aims to create a consistent profile of nursing establishments in all areas of the organisation.
- Introduced the Safe Affordable Workforce initiative which covers all 16,000 staff in the board and aims to refine efforts in matching supply and demand of workforce skills and competencies within available financial resource.

Performance management

98. The NHS Scotland Quality Strategy, launched in May 2010, is underpinned by the three Healthcare Quality Ambitions: person centred, safe and clinically effective.
99. NHS Grampian has a well established performance management framework in place for monitoring and reporting on performance. The main elements of this framework are:
 - A Performance Management Strategy which ensures that arrangements are kept under review.
 - Bi monthly reporting to the Performance Governance Committee (PGC) on HEAT targets.
 - NHS Grampian uses the 'Healthstat' process which uses 'Citistat' principals to report on performance.
 - PGC oversees a performance review panel which scrutinises and follows up on performance measures.
 - Performance reporting to the corporate management team.
 - Individual performance appraisal of all Directors and Senior Managers.
100. NHS Grampian is subject to an annual review which is chaired by the Cabinet Secretary for Health and Wellbeing. The annual review highlights areas of good performance and identifies areas where specific action would be required to improve health and treatment.

People Management

101. As with other health boards in Scotland, NHS Grampian faces a major challenge in achieving the national sickness absence target of 4%. The current sickness absence rate for the board is 4.3% which although above target is an improvement on last year when the rate was 4.6%. Sickness absence is a key focus of performance reviews and the board has a detailed plan in place to reduce absence levels.
102. It is crucial for NHS Grampian to have effective workforce planning arrangements in place in order to secure best value and meet challenging performance targets. The board continues to develop its planning arrangements, including corporate guidance, to help ensure workforce plans are properly aligned to service and financial plans.

Improving public sector purchasing – follow-up audit

- 103.** Improving Public Sector Purchasing – A follow-up audit was carried out in 2010/11 to assess whether local procurement arrangements in NHS Grampian were consistent with good practice and addressed the key issues identified in Audit Scotland's national performance report 'Improving public sector purchasing' (July 2009).
- 104.** In carrying out the study we used a checklist based on the key issues identified in the national report as part of our discussion with management. The completed checklist and supporting evidence were subsequently used as the basis for our report which has been issued to management. Our findings are positive and indicate that procurement is well managed within NHS Grampian. The board's Procurement Capability Assessment (PCA) rose from 51% to 74%. NHS Grampian's procurement department is only one point away from the 'superior performance' category.

Overview of performance in 2010/11

- 105.** The board receives regular reports on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards). In March 2011 the board reported success in achieving most of the targets relating to inpatients, outpatients, diagnostics and cardiac intervention. In most areas performance continues to improve.
- 106.** Examples where 2010/11 performance has met or exceeded the targets include inequalities targeted cardiovascular health checks, all cancer treatments within 31 days, A&E 4 hour compliance and reducing hospital lengths of stay with the length of time people are admitted prior to a planned procedure taking place and also following an emergency admission falling substantially throughout 2010/11. The board has also made significant efforts with its local authority partners to ensure that the delayed discharge target is achieved.
- 107.** Some targets were not fully achieved. These include child healthy weight interventions, urgent referrals with suspicion of cancer treated within 62 days, did not attend rates for new outpatient appointments and sickness absence rates. In each case management have established actions to improve performance.
- 108.** 2010/11 saw the introduction of two new targets relating to access to drug and alcohol treatment services. The board's performance was under plan in relation to the first of these, the time between referral to assessment. The second target, of 90% receiving a date for treatment within 4 weeks of an agreed care plan, was met in full throughout 2010/11.

National performance reports

- 109.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports. These reports are considered by the Office of the Chief Executive which carries out an initial review of the findings in each report and assigns responsibility to individual managers and Directors to progress the relevant actions. The Audit

Committee are provided with regular updates on how the board will address any recommendations made. Reports in the last year include:

Table 2: A selection of National performance reports 2010/11

- | | |
|---|---|
| <ul style="list-style-type: none">• Using locum doctors in hospitals (June 2010)• Emergency Departments (Aug 2010)• Community Health Partnerships (June 2011) | <ul style="list-style-type: none">• Role of boards (Dec 2010)• Management of the Scottish Government's capital investment programme (Jan 2011) |
|---|---|

Source www.audit-scotland.gov.uk

Using locum doctors in hospitals

110. Scottish health boards spend around £47 million a year on locum doctors in hospitals. This spending has doubled in the past decade but, in many cases, health boards are not always clear about why locum doctors are being hired and how long they are using them for.
111. The report also says the NHS needs to get better at managing the potential risks to patient safety of using locum doctors. This is particularly important for locum doctors who are hired through private agencies as they may be unknown to the board and unfamiliar with the hospital in which they are working. Health boards across Scotland need to be consistent in the way they screen and induct locum doctors and the way they manage their performance. There are no formal systems for sharing information about individual locum doctors between boards.
112. A new National Locum Framework was established in June 2010. NHS Grampian is involved in the implementation group for the new national medical locum bank. The board is continually monitoring its use of the national procurement contract and is of the opinion that all external agency medical locum use across NHS Scotland should be withdrawn

Emergency departments

113. Patient satisfaction with emergency care services is high. However there is widespread variation in the services provided at hospital emergency departments and a lack of clarity about where best to treat different patients. Attendances, costs and workforce pressures are rising, and the NHS in Scotland can do more to manage these services more efficiently. The report highlights that attempts to reduce attendances at emergency departments are not underpinned by an assessment of what works or how much it would cost to have people treated in another setting, such as a minor injuries clinic, where this is appropriate. Closer working across the whole health and social care system is needed to make further improvements.
114. Work to reduce rates of A&E attendance is the remit for the Grampian unscheduled care network with multidisciplinary, multiagency membership. The board are on track to reduce the rate of attendance as agreed with the Scottish Government.

115. The recommendations made in the report form part of the planning for the operational policies being developed for the new Emergency Care Centre for Grampian, due to open in 2012. A Lead for this work was appointed in January 2011.

Role of boards

116. Public bodies and their boards have evolved over time. There is great variety in the size and make-up of boards and the roles that they have. Accountability can be complex, with chief executives and boards reporting in different ways to the Scottish Government, ministers and the Scottish Parliament. This risks causing confusion about who leads an organisation and is responsible for its decisions.
117. In response to the key messages in the national report, NHS Grampian's Head of Strategic Development is currently reviewing the report's findings with a view to reporting to the Senior Management Team in due course.

Management of the Scottish Government's capital investment programme

118. The Scottish Government has improved its scrutiny of its programme in recent years. However, improvements have been slow in the information about the status and performance of individual projects, which would help with management of the programme. Information about whether capital projects were on time and within budget is not always available. Where information is available, it shows that cost estimating has improved in recent years. Many projects still run late, although delays tend to be at the early stages before contracts are signed and are less likely to affect costs.
119. In response to the national report the board's Asset Investment Group are compiling an action plan to address the issues raised and manage future progress.

Community Health Partnerships

120. Our review looked at the impact community health partnerships (CHPs) have in improving people's health and quality of life by joining up health and social care services and moving more services from hospitals into the community. It was found that few CHPs have the authority to influence how resources are used in their area.
121. A joint approach involving all partners is needed to make the significant changes needed to tackle Scotland's complex and long-standing health and social care issues. The report also calls for a fundamental review of partnership arrangements to ensure they focus on meeting individuals' needs. The report highlights examples of good practice where CHPs are providing enhanced community-based services. But these local initiatives are small scale and there is limited evidence so far of wide-spread sustained improvements.
122. Publication of the national report on Community Health Partnerships (June 2011) was delayed because of the moratorium on reporting due to the Scottish Parliament general election in May 2011. The audit committee has passed the report to the Chief Operating Officer to develop an action plan to take the issues forward in NHS Grampian.

Outlook

Best Value

123. NHS Grampian has already completed a comprehensive baseline assessment against each of the seven themes identified in the Scottish Government's revised guidance on Best Value. The board will continue to review progress in continuous performance improvement on an on-going basis.

Performance

124. Over recent years the board has invested substantial resources in order to achieve challenging performance targets set by the Scottish Government. The board's 2011/12 Financial Plan assumes that it will be required to deploy an additional £3.6 million funding to meet the national access targets. The significant financial challenges that will be faced in 2011/12 and beyond may force the board to prioritise its resources. This will make maintaining or improving performance even more challenging.

Risk Area 6

Service Redesign

125. Applying the board's change methodology of Continuous Service Improvement (CSI) in a robust, consistent and targeted manner is fundamental to maximising effective, efficient and sustainable services. Demography will demand a different way of service delivery and this is likely to involve significant change rather than tinkering at the edges. Robust methodology and its effective application in such turbulent conditions are essential.

Risk area 7

People Management

126. As with all other NHS boards there is a risk that the increased pressure for staff in managing change in difficult economic times will have an adverse affect on sickness absence, making it more difficult for the board to achieve the 4% target.

Risk Area 8

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	8 November 2010	9 March 2011
Annual Audit Plan	28 February 2011	9 March 2011
Review of staff earning over £100,000 p.a.	29 March 2011	10 May 2011
Internal Controls Management Letter	21 April 2011	10 May 2011
Report to Audit Committee in terms of ISA 260	21 June 2011	24 June 2011
Independent auditor's report on the financial statements	28 June 2011	24 June 2011
Improving Public Sector Purchasing – Follow-up audit	July 2011	September 2011
Annual report to members and AGS	27 July 2011	September 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	21	<p>Equal Pay</p> <p>NHS Grampian as with other boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the board's financial position.</p>	Continue to liaise with the Central Legal Office and Equal Pay Unit to determine whether circumstances change to the extent that quantification of any liability becomes possible.	Director of HR and Strategic Change and Director of Finance	31 March 2012
2	39,44 & 45	<p>2011/12 Savings Target</p> <p>The board faces a wide range of financial challenges and there is a risk that it may not be able to make its savings targets in 2011/12. The longer term financial plan remains at risk of not being affordable and is a significant challenge to the board moving forward.</p>	Ensure that robust financial performance management processes continue at all levels throughout the year. Budget Steering Group monthly review meetings to continue to focus on ongoing and projected performance with any necessary remedial action instigated promptly.	Chief Executive and Director of Finance	Monthly from 30 June 2011
3	42	<p>Workforce Planning</p> <p>The board is likely to have to reduce staff numbers in order to achieve its 2011/12 cost savings plan. There is a risk that this may result in the loss of key personnel with a consequent loss of essential knowledge and experience.</p>	Very detailed workforce planning and management ongoing through the Safe and Affordable Workforce initiative. SAW Steering Group critical responsibility in ensuring that proposals put forward are fit for purpose.	Director of HR and Strategic Change	Monthly review

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	47	<p>Backlog Maintenance</p> <p>There is a risk that unplanned investment will be required to address 'high' and 'very high' risk backlog maintenance costs, especially at a time when capital funding available is restricted.</p>	NHS Grampian has a very detailed record of estate quality and fitness for purpose. Asset Investment Group's continuous review of key risks and ongoing mitigation measures essential to avoidance of unplanned, potentially high cost remedies.	Director of Public Health and Planning	Monthly review
5	84	<p>Partnership Working</p> <p>There is a risk that relationships with partners will become strained in the current economic climate at a time when there will be an ever greater need to work on shared initiatives.</p>	NHS Grampian continues to enjoy good working relationships with local authority and third sector partners through the effectiveness of CHP arrangements. While stress will potentially be placed on such relationships as a result of increased pressure to deliver on joint agendas, continuing constructive dialogue will be maintained.	Chief Operating Officer and Director of Finance	Bi-monthly partnership discussions
6	124	<p>Performance Targets</p> <p>The board's Financial Plan assumes that it will require to deploy an additional £3.6 million funding to meet the national access targets. There is a risk that the additional funding will be insufficient to meet the targets. There is also a risk that the SGHD funding for access targets will be reduced.</p>	NHS Grampian continues to make good progress in preparing to meet December 2011 18 week Referral to Treatment targets. Very regular operational reviews continue with essential performance information made available by Health Intelligence to operational managers.	Director of Strategic Change and Chief Operating Officer	31 Dec 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
7	125	<p>Service Redesign</p> <p>The Board will need to maintain effective application of its CSI programme if it is to continue to change its service delivery.</p>	<p>NHS Grampian had invested in dedicated change management with skill transfer taking place from experts to others throughout the organisation. Regular strategic reviews are carried out by the CSI Steering Group to ensure limited resources are focused most effectively. Operational performance management processes support the change programme by continuously assessing benefits derived.</p>	Director of HR and Strategic Change	Monthly Steering Group review meetings
8	126	<p>Sickness Absence</p> <p>As with other NHS Scotland bodies, NHSG will find it a challenge to achieve the sickness absence target of 4%.</p>	<p>Focus continues to move to "attendance management" with several effective initiatives being introduced and maintained across the organisation. The Occupational Health Service is particularly active in helping managers consider and implement appropriate mechanisms as a "one size fits all" approach is unlikely to succeed.</p>	Director of HR and Strategic Change	31 March 2012