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Dumfries and Galloway NHS Board

Annual Report to Members and the Auditor General for Scotland

2011/12

June 2012

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Contents

The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Audit Scotland Code of Audit Practice, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free from misstatement. Our audit responsibilities and their limitations are explained in our letter of appointment.

Any oral comments made in discussions with you relating to this report are not intended to have any greater significance than explanations of matters contained in the report. Any oral comments that we make do not constitute oral advice unless we confirm any such advice formally in writing.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising, and in particular we cannot be held responsible for reporting all risks at Dumfries and Galloway NHS Board or all internal control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

1. Executive Commentary

Introduction - Section 2

Our overall responsibility as external auditor of Dumfries and Galloway NHS Board ("the Health Board") is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice ("the Code"), revised and published in March 2011. We have a dual reporting responsibility for the audit: to the Board Members of Dumfries and Galloway NHS Board and to the Auditor General for Scotland.

Financial Statements and Audit Opinions - Section 3

The financial statements of The Health Board for the year ended 31 March 2012 have been prepared to comply with accounting requirements contained in the NHS Board Accounts Manual for Directors' Report and Accounts of NHS Boards and for Scottish Financial Returns, and supplementary guidance, as issued by the Scottish Government Health and Social Care Directorates (SGHSCD) and approved by the Scottish Ministers. We are pleased to report that our opinion on the financial statements for the year ended 31 March 2012 is **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**. Our audit opinion does not extend to any other part of the Directors' Report.

As a result of our work, we proposed a number of disclosure adjustments, none of which were financial. All of these have been processed by management in the finalised version of the 2011/12 financial statements.

Two significant accounting issues were noted during the 2011/12 financial statement audit. These include the change in accounting policy in Donated Assets and the Prisoner Service Transfer. The accounting treatment of these changes has been confirmed in the preparation of the 2011/12 financial statements, with no unadjusted misstatements remaining. However, there are a few issues that require further action from The Health Board management to resolve.

2011/12 Performance - Section 4

The 2011/12 financial plan assumed utilisation of the previously carried forward funding of £4.20 million (agreed to recognise the level of cash releasing efficiency savings required to fund the redevelopment of Dumfries and Galloway Royal Infirmary), with an in-year deficit of £2.20 million anticipated against the Board's 2011/12 Revenue Resource Limit (RRL) resulting in a planned carry forward of £2.00 million at 31 March 2012.

As it transpired, the Board managed a carry forward £2.15 million against the RRL. This was achieved through the delivery of £8.02 million of recurring savings against a planned target of £7.85 million representing an additional delivery of £0.17 million in year.

Capital expenditure for 2011/12 was £18.17 million, resulting in an under spend of £0.10 million. The majority of this spend was incurred on the Acute Mental Health Development including the Midpark Hospital new build (£9.70 million) and North West Dumfries (£2.50 million).

Looking Forward - 2012/13 - Section 5

The key element of the plan is to use the carry forward funding of £2.00 million from 2011/12 to support the delivery of an overall break-even financial position for 2012/13.

The delivery of break-even is dependent on a challenging savings target of £7.50 million, which has all been identified across 165 individual schemes.

Revenue funding of £3.80 million has been set aside for the new Dumfries and Galloway Royal Infirmary (DGRI) Redevelopment Project to cover professional fees in 2012/13. The Board are expecting approval of the Outline Business Case in Winter 2012.

A number of financial pressures have been identified by the Board including Agenda for Change, prescribing and general supplies and each of these are included in the Financial Plan Risk Matrix which provides an overall assessment of each individual risk together with identified risk mitigation actions and controls.

Governance and Control - Section 6

We have assessed the Board's overall governance arrangements including a review of Board and key Committee structures and minutes, financial reporting to the Board, and risk management. We consider that appropriate arrangements and reporting appear to be in place. We have also considered key areas of risk to the Board including partnership working; service sustainability; performance management; and people management. Appropriate evidence of activity has been provided by The Health Board.

The Code of Audit Practice requires us to review and report on Dumfries and Galloway NHS Board's Annual Governance Statement. The Health Board has used the correct format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of The Health Board's control framework have been highlighted.

Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Other Key Performance Information - Section 7

In terms of Waiting Times, the Board has achieved the 18 week referral to treatment target, with actual percentages of 92% and 98.7% for combined completeness and combined performance respectively.

In line with the mandate from the Cabinet Secretary, the Board's Internal Auditor will undertake a specific and detailed internal audit of local waiting times management and processes covering the reporting mechanisms, the controls around the processes, and compliance with guidance. This will be reported to the SGHSCD and the Audit Committee in December 2012.

The Board also reported a sickness absence rate of 4.28% in 2011/12, whereas the external national target was 4%.

2. Introduction

Purpose of this report

Our Annual Audit Report which follows is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct your attention to matters of significance that have arisen out of the 2011/12 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope, nature and extent of our audit

Our overall responsibility as external auditor of the Board is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor", the Auditor General for Scotland and other auditors such as Audit Scotland's Health Performance and Public Reporting Group.

Our audit has been planned and conducted to take account of these wider perspectives. Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 (revised and re-drafted): "Communication with those charged with governance", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members, and our separate ('ISA') 260 (revised and re-drafted): "Communication with those charged with governance" together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

Acknowledgement

We would like to formally extend our thanks to The Health Board's managers and staff for the assistance they have given us during this year's audit process. The first year of any working relationship is always difficult, but our teams have established a good working relationship and this has contributed to a productive audit process.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Appointed Auditors
141 Bothwell Street
Glasgow
G2 7EQ
21 June 2012

3. Audit Opinion and Financial Statements

Audit Opinion

Our audit opinion concerns the true and fair statement of The Health Board's financial results for the year ended 31 March 2012 and the regularity of its income and expenditure for the year.
We are pleased to report that our opinion on the true and fair view on the financial statements and on the regularity of income and expenditure is **unqualified**.

We also provide a view as to whether those parts of the Remuneration Report subject to audit have been properly prepared. Our opinion on the Remuneration Report is **unqualified**. Our audit opinion does not extend to any other part of the Directors' Report.

Audit Process

The financial statements and supporting schedules were presented to us for audit within the agreed timetable and the quality of working papers provided by management was of a good standard. This resulted in an efficient audit process, including an effective working relationship with your staff.

Basis of Preparation

The financial statements were prepared in accordance with the accounting requirements contained in the NHS Board Accounts Manual for Directors' Report and Accounts of NHS Boards and for Scottish Financial Returns, and supplementary guidance, as issued by the Scottish Government Health and Social Care Directorates (SGHSCD) and approved by the Scottish Ministers.

Approval

The Financial Statements will be submitted to the Audit Committee on the 13th June 2012 and are to be approved and adopted at the Board meeting on 18 June 2012.

Unadjusted Misstatements

Under ISA 260 (revised and re-drafted) - "Communication of audit matters to those charged with governance", we are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those which we deem to be of a trivial nature.

As a result of our work, we proposed a number of disclosure adjustments and all of these have been processed by management in the finalised version of the 2011/12 financial statements. All significant financial adjustments identified were accepted by management. Two misstatements were identified which have not been adjusted that have been included within our ISA 260 (revised and re-drafted) – "Communication of audit matters to those charged with governance" report. These misstatements are not of a material nature.

Accounting Issues

SGHSC have required the 2011/12 financial statements to take account of a change of accounting treatment for Donated Asset Reserve and the Transfer of Prisoner Healthcare to NHS Scotland. This change applies to both 2010/11 and future periods. As a result a restatement of previously disclosed information is required.

The change in Donated Assets has resulted in the elimination of the specific reserves in relation to Donated Assets with these now being treated in line with reserves for other fixed assets. The impact of the change in Donated assets for The Health Board resulted in a reallocation of the Donated Asset reserve to the General Reserve of £3.18 million.

Incorporation of the Transfer of Prisoner Healthcare to NHS Scotland relevant to The Health Board resulted in £0.02 million of assets being transferred, along with the ongoing responsibility for the associated costs of providing this service.

4. 2011/12 Financial Performance

NHS board (2011/12)	£m	£m
Recurring income	A	278,058
Recurring expenditure	B	285,004
Recurring savings	C	6,946
Underlying recurring surplus/(deficit)	*(A-B)+C*	**0**
Non-recurring income	D	17,769
Non-recurring expenditure	E	16,517
Non-recurring savings	F	896
Non-recurring surplus/(deficit)	*(D-E)+F*	**2,148**
Financial surplus/(deficit)	*X+Y*	**2,148**
Underlying recurring surplus/(deficit) as a percentage of recurring income	*(X/A)*100*	**0.08%**

Confirmed on the 6th June 2012 by NHS Board Director of Finance:

Performance against Key Financial Targets - Summary

The Health Board has achieved all of its financial targets in the year, as follows:

	Limit set by SGHSC £m	Actual Outturn £m	Variance (over)/under £m
Revenue Resource Limit	278.55	276.40	2.15
Capital Resource Limit	18.27	18.17	0.10
Cash Requirement	295.00	294.90	0.10

Performance against Key Financial Targets - Revenue

In March 2011 the Board approved a five-year financial plan through to 2015-16, submitted to the SGHSC with the Local Delivery Plan. The 2011/12 financial plan assumed utilisation of the previously carried forward funding of £4.20 million (agreed to recognise the level of cash releasing efficiency savings required to fund the proposed redevelopment of Dumfries and Galloway Royal Infirmary), with an in-year deficit of £2.20 million anticipated against the Board's 2011/12 Revenue Resource Limit (RRL) resulting in a planned carry forward of £2.00 million at 31 March 2012.

As it transpired, the Board managed to carry forward £2.15 million against the RRL. In achieving the surplus, the Board recorded a number of variations from budget as follows:

- Acute Services (overall break-even) – Medical and nursing pays were £0.15 million underspend, however, break-even was only achieved by drawing £1.00 million from the locum reserve to cover pressures with vacancies, sickness and maternity leave.
- Mental Health Directorate (£0.90 million underspend) - primarily in staffing budgets, although the level of monthly underspend slowed towards the end of the year following the opening of the new Acute Mental Health hospital, Midpark.
- Corporate Services (underspend of £0.73 million) - the main contributions came from the Medical Directorate (primarily community dental) and the Public Health Directorate which in total contributed £0.48 million.
- Strategic Services (overspend of £0.82 million)- consisting of an overspend in the externals budget of £0.48 million, which reflects a number of year end movements on service agreements within other Health Boards, and an under recovery of central income of £0.47 million, primarily relating to under recovery of income for Road Traffic Accidents (£0.30 million) and a reduction in income due to support training for junior doctors (£0.15 million).

Performance against Key Financial Targets - Capital

In March 2011 the Board approved a five year capital plan for 2011/12 to 2015/16. This reflected the changing allocation of capital funding across the NHS in Scotland, with available funding being top sliced to those approved projects where a legal commitment already existed. The remainder of funding is now distributed through formula allocations as derived by the NHS Scotland Resource Allocation Committee.

Expenditure on 2011/12 schemes was £18.17 million, giving rise to an under spend of £0.10 million. The majority of this spend was incurred on the Acute Mental Health Development Programme, Midpark Hospital (£9.70 million) and North West Dumfries (£2.50 million).

The key variance underpinning the overall underspend for the year related to the Acute Mental Health Development of Midpark Hospital, which returned £1.06 million under budget for the year. Key reasons for this underspend include robust management of the budget by the Project Board, additional VAT efficiencies, target price negotiation and effective risk management.

Dumfries and Galloway Royal Infirmary (DGRI) Redevelopment Project

The Board agreed a 5 year strategy – *Putting You First* (PYF) – in March 2011. This sets out the direction of travel that will support service change, shift the balance of care and develop a re-design of services.

The redevelopment of Dumfries and Galloway Royal Infirmary, an integral part of future service redesign, was removed from the capital plan as submitted to the SGHSC in March 2011 due to the uncertainty over the future availability of capital funding from the Scottish Government.

However, the plan is progressing, with the outline Business Case estimated to be submitted to the Capital Investment Group of the SGHSC in time for their November 2012 meeting.

The expected timeline and phases of completion for the project have been outlined below:

- Site selection – agreed by NHS Dumfries and Galloway Board on 16th May 2012.
- Cresswell Services – to be agreed by the Scrutiny Committee in July 2012.
- Outline Business Case – to be approved by NHS Dumfries and Galloway Board in September 2012.
- Planning in Principle Application – to be approved by the Project Board in September 2012.
- Reference Design – to be approved by the Project Board in December 2012.
- Procurement process – to be approved in February 2013 – July 2014.
- Full Business Case and Financial close – to be agreed by NHS Dumfries and Galloway in July 2014.

No capital expenditure is anticipated during 2012/13, with £2.00 million of revenue funding allocated in-year to cover professional fees and development work. The development expenditure for the project is funded through the recurring monies of £3.80 million the Board has already set aside for the additional recurring costs of the new hospital.

Savings Programme 2011/12

The 2011/12 CRES plan presented to the Board in March 2011 included a target of £7.80 million. At that point, Management anticipated that over achievement against the in-year target would permit a degree of flexibility against any slippage in schemes during the year. Overall savings targets were set of £4.40 million and £3.40 million for operating divisions and corporate directorates, respectively.

Management have reported to the Board that savings of £8.02 million have been delivered for the year against a planned target of £7.85 million representing additional delivery of £0.17 million in year.

Detailed monitoring of all the efficiency schemes is carried out on an ongoing basis by the Efficiency Group, supported by the Senior Finance Team, to assess and highlight risks of CRES delivery.

The 2011/12 CRES plan included over 200 individual schemes identified by the various divisions and directorates within the Board. Of the above plans, the most significant relates to the following;

Description	Recurring Savings Achieved 2011/12 £m
Prescribing	1.45
Acute Services	1.32
Womens and Childrens	0.67
Pharmacy (secondary care)	0.39

Managing Financial Performance

Management receives detailed financial information to help manage performance against budgets and control expenditure. Detailed management accounts are prepared on a monthly basis, while management accountants liaise with directors and senior management to analyse the management reports and understand key variances against budgets. Directors receive responses from budget-holders within their directorates regarding variances, which they feed through to management accountants. The outcomes of the monthly reviews are consolidated into financial monitoring reports for consideration by the Board and senior management. The information produced and frequency of reporting ensures decision makers have appropriate information on which to base decisions.

The reporting arrangements were considered during the year and summarised 'n the Interim Management Letter, as reported to the March 2012 Audit Committee. We note that management has made some progress towards implementing our recommendations since this date.

The Board have an excellent track record of achieving recurring savings targets, with clear demonstration of strong leadership and the promotion of ownership of the various schemes. The Board has also established an Efficiency Group chaired by the Director of Finance and attended by General Managers and others to explore new and innovative areas for efficient ways of working. There is a high degree of engagement and input from staff and partnership colleagues who are fully engaged in this process.

All these attributes will be crucial as the Board continues to face challenging savings targets in the coming year, particularly with continued funding constraints, in-year cost pressures and the on-going Acute Services Redevelopment Project.

5. Looking forward - 2012/13

NHS board (2012/13)	£m	£m
Recurring income	A	286,010
Recurring expenditure	B	293,510
Recurring savings	C	7,500
Underlying recurring surplus/(deficit)	*(A-B)+C*	**0**
Non-recurring income	D	25,026
Non-recurring expenditure	E	25,026
Non-recurring savings	F	0
Non-recurring surplus/(deficit)	*(D-E)+F*	**0**
Financial surplus/(deficit)	*X+Y*	**0**
Underlying recurring surplus/(deficit) as a percentage of recurring income	*(X/A)*100*	**0%**

Confirmed on the 6th June 2012 by NHS Board Director of Finance:

Financial Plan and Service Sustainability

Due to the major capital investment which the Board is undertaking with the Acute Services Redevelopment Project, the Board were required to submit a five year financial plan for 2012/13 – 2016/17, which was subsequently agreed by the Board in March 2012.

The key element of the plan is to carry forward funding of £2.00 million from 2011/12 (refer above) into 2012/13 and is forecast to use this funding non-recurrently in year to support the delivery of an overall break-even financial position by the end of 2012/13.

The baseline Revenue Allocation uplift for 2012/13 has been confirmed by the Scottish Government at £2.41million (1%), with total additional sources of funding available for 2012/13 of £22.14 million.

This includes an additional £0.37 million share of the £10.00 million Health and Social Care Fund (this is in addition to the £2.56 million confirmed in 2011/12) and a sum for Access funding of £1.93 million to replace support already received as a Board through ring-fenced allocations and the Access bundle.

Savings Plans

The Board's financial plan identifies the requirement to deliver recurring cash releasing efficiencies of £7.50 million to remain in recurring financial balance. Development of efficiency plans for 2012/13 have been progressing through a series of workshops and recurring schemes to the value of £7.50 million have been developed against an overall target of £7.69 million.

Key savings target areas for 2012/13 include;-

Description	Recurring Savings £m
Prescribing and Pharmacy (primary and secondary care)	2.00
Acute Services	1.30
Womens and Childrens	0.50

Action 1

2012/13 Cost Pressures

The pay and price increases facing The Health Board are expected to cost an additional £6.40 million in 2012/13, consisting of;-

- An overall expected increased in Agenda for Change staff costs of £1.84m (1.6%) for incremental drift and £0.46m (0.42%) for agenda for change staff pay inflation in 2012/13.
- Prescribing budgets have a proposed uplift of 6.2% (£1.79m), including the estimated cost of recently approved drugs by the Scottish Medicines Consortium and the impact to changes in prescribing guidelines and general volume increases.
- General supplies increases have been assumed at £0.49m (2%) with a potential £0.48m (20%) increase in energy costs for 2012/13.

A recurring sum of £3.08 million and a non-recurring sum of £3.30 million for 2012/13 have been set aside to cover the costs of future regional and national developments, cost pressures and any other critical or must do developments. To date cost pressures and developments of £5.00 million for 2012/13 have been identified. These costs have been included in the break-even budget.

Capital

In line with the revised method of calculating capital allocations, and the resultant reductions in amounts available to NHS Boards, The Health Board is anticipating expenditure of £6.00 million in 2012/13.

£3.40 million of this expenditure is committed and is proceeding on projects previously approved, with the balance of £2.60 million yet to be prioritised through the Local Capital Investment Group.

Key Risks to Achieving Financial Balance

Achievement of the financial plan will be very challenging due to continued pays pressure and the delivery of the Acute Services Redevelopment Project.

To aid monitoring of identified risks, management has prepared a financial plan risk matrix which provides an overall assessment (low, medium, high) of each individual risks together with identified risk mitigation actions and controls.

The key risks can be summarised as;-

- The backlog maintenance issue at DGRI will continue to be a risk and require expenditure in the period that the hospital remains operational;
- Whilst CRES plans to date have identified schemes to the value of £7.50 million, 57% of these schemes are in the medium to high risk category;

- A number of significant risks exists within the primary and secondary care prescribing budgets, specifically the introduction of Scottish Medicines Consortium approved drugs, e.g. dabigatran.

All the risks associated with the financial plan are reviewed throughout the financial years through both the monthly financial monitoring, and the quarterly and midyear financial reviews, which should identify if and where the risk profile has changed and inform financial estimates and assumptions.

Action 2

6. Governance and Control

Overall Governance Arrangements

Committees

The established Committee framework at the Board remains in place, incorporating Audit, Healthcare Governance, Scrutiny and Staff Governance Committees. Each of the Committees meets regularly and has at least one non-executive director present. Our audit work covering Governance highlighted that Committees were operating effectively with a suitable level of detailed information provided.

Executive Management

During 2011/12 the Chief Executive left the organisation to take up a new position as Chief Executive at NHS Ayrshire and Arran. Continuity was retained within the organisation by both the new Chief Executive and the Interim Chief Operating Officer appointed from within the organisation.

Healthcare Inspection

The NHS Healthcare Improvement Scotland (HIS) Standards for Clinical Governance, Patient Safety and Risk Management cover all aspects of clinical governance and risk management from the perspective of patient outcomes. The Healthcare Governance Committee considered the following reports issued by HIS during the year:

- Healthcare Services for Patients with Learning Disabilities improvement work final report
- Neurological Standards improvement work
- Pre Joint Advisory Group (JAG)
- Draft Healthcare Quality Standard

No significant issues were highlighted that were relevant to The Health Board.

Partnership working and Shared Services

The Board's partnership working arrangements are characterised by SLAs with other NHS bodies including membership of the NHS Ayrshire & Arran Consortium for shared Cedar e-financials systems.

An extended local partnership agreement exists between Dumfries and Galloway Council and The Health Board and covers all community care client groups. The shared vision is for better outcomes for people who require services and their carers and improved partnership working between the two agencies. This area of joint working includes the integration of services but does not involve the use of pooled budgets.

The Community Health and Social Care Partnership Board (CHSCPB) was set up in 2008. This is a partnership across the Dumfries and Galloway NHS Board and Dumfries and Galloway Council and acts as a Sub Committee of Social Work and an NHS Board Committee. The purpose of the CHSCPB is to set the direction for the delivery of high quality outcomes for people that use our services and to support joint working across adult care.

The Cabinet Secretary for Cities and Health announced the intention to integrate health and social care in December 2011 and a commitment was made to consult on proposals following the Local Government elections that take place in May 2012. A number of national discussions have taken place that involved key stakeholders including NHS Board Chief Executives, CoSLA and the Association of the Directors of Social Work (ADSW) and these discussions will help form the consultation. NHS Board Chief Executive Groups are

also leading a response and a number of workstreams have been set up in order to support this developing agenda.

Locally, both the CHSCPB and the Community Planning Strategic Partnership have a keen interest in understanding and analysing the content of the consultation and in leading discussions across the Dumfries and Galloway Partnership in terms of potential models to achieve the best outcomes for people in this region. Further discussion and planning on this will take place following the start of the consultation process.

Annual Governance Statement

The Code of Audit Practice requires us to review and report on the Board's Annual Governance Statement, this requirement replaces the Statement on Internal Control that has been previously required. This is to align with the UK Corporate Governance Code, due to the timing of confirmation of the guidance in relation to the requirements NHS Boards have been permitted to explain any departures from the code as an interim measure in 2011/12.

The Board has used the correct format for its Statement and has outlined the processes it has employed to identify and evaluate risks. In addition, key elements of the Board's control framework have been highlighted. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Systems of Internal Control

The results of our work on systems of internal control were communicated to the Audit Committee in our Interim Management Letter on 22 March 2012. The report contained six recommendations to improve controls, none of which were considered high risk. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

Follow up of outstanding recommendations

During the course of our audit work we followed up The Health Board's progress in implementing recommendations made by the previous auditors, KPMG.

Of the agreed recommendations made in the report issued by KPMG in March 2011, progress is now as follows:

Status	Total
Action implemented	3
Partially implemented	-
Little action to date	-
Superseded by recommendation in our Interim Management Letter	1
Total Recommendations	**4**

This demonstrates good ongoing progress by the Board to put in place improvements identified by external audit.

Information Technology General Controls

ISA (UK&I) 315.93 requires auditors to "... obtain an understanding of how the entity has responded to risks arising from IT". IT General Controls (ITGCs) are controls put in place by management to mitigate those risks. ITGCs help ensure the continued proper operation of information systems to maintain the integrity of information and security of data.

Several of the Board's IT operations are outsourced to service organisations such as the NHS Ayrshire & Arran Consortium. As a result, we are able to gain assurance over the Family Health Service and General Ledger systems through the receipt and review of service organisation auditor reports, such as ISAE 3402. Our review of these reports did not uncover any instances whereby we were unable to place reliance upon the outsourced key financial systems. In other areas, we perform our own ITGC procedures.

From our own ITGC work, three control weaknesses were noted in respect of the Board's IT control environment. All of these issues were reported in the Interim Management Letter and none were noted as high risk or as having an impact on the level of reliance that could be placed on the key financial system outputs.

Internal Audit

The role of internal audit is determined by management and therefore its objectives differ from ours. Part of our overall audit approach involves gaining an understanding of the internal audit function to determine if it would be effective and efficient to use their work.

During 2011/12, the Board continued to have an in house internal audit function. Internal audit have completed 13 reviews within the year, twelve which were within the original plan, and have six reviews that are currently work in progress. In addition 13 outstanding reviews from the 2010/11 plan have been delivered within the year.

We have reviewed the work of internal audit and have, where appropriate, placed reliance on their work. Internal Audit have found that they are satisfied with the consistency of the evidence which supports the Governance Statement with the information available from the work undertaken within Internal Audit.

National Fraud Initiative

The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

The Health Board chose to investigate all matches rather than focusing on recommended matches or a particular type of match only. To 31 May 2011 all matches had been reviewed to determine a suitable course of action and to investigate and conclude on the reason for the match. This includes reviewing payroll records, liaising with the Human Resources Department or other Boards and Local Authorities.

The majority of the matches The Health Board received related to employees working on multiple jobs.

As at 31 May 2012 no frauds have been identified through the 2011/12 NFI exercise.

Best Value

Audit Scotland continues to develop its approach to the audit of Best Value in the NHS. For 2011/12 auditors are required to be aware of the Best Value Toolkits developed by Audit Scotland, and use one or more toolkit(s) as appropriate in agreement with the NHS Board as set out in Audit Scotland's planning guidance. The selection of the toolkits for NHS Dumfries and Galloway has been based on an appropriate consideration of local circumstances. We have agreed with Management and the Audit Committee of NHS Dumfries and Galloway to make use of the Challenge and Improvement and Community Engagement toolkits in 2011/12.

The toolkits take the form of a series of key questions based on identified best practice. They set out four descriptors which capture levels of development or performance:

N	**Does not meet basic requirements**	An organisation may not yet demonstrate the basic practice level in any particular category.
B	**Basic practices**	Minimum acceptable standards, which would be sufficient to allow an organisation to demonstrate sound performance.

BE	**Better practices**	As basic, with some elements of good or even best practice, but not on a consistent basis.
A	**Advanced practices**	Consistently demonstrating good or best practice and contributing to innovation.

Challenge and Improvement

The toolkit aims to establish how each Board has achieved the main objectives. For Challenge and Improvement these are:

- To ensure that there is challenge evident in the organisation's culture;
- To ensure that there are processes to challenge effectively;
- That there is an established process for challenge and options appraisal; and
- To be able to measure what challenge and improvement has achieved.

In three of the four modules of the Challenge and Improvement Toolkit NHS Dumfries and Galloway has been classified as performing at a "better level" of performance with the other area being assessed as performing at the advanced level.

Community Engagement

The toolkit aims to establish how each Board has achieved the main objectives. For Community Engagement these are:

- To ensure that the organisation demonstrate a commitment culture to community engagement;
- To understand the needs and aspirations of communities;
- To ensure communities are involved in decision-making;
- To sufficiently plan and monitor arrangements in respect of community engagement; and
- To be able to measure what community engagement has achieved.

In four of the five areas of the Community Engagement Toolkit the Board has been classified as performing at a Better level of performance, with Basic performance in the fifth.

Our full reporting on these areas will be presented at the September 2012 Audit Committee.

Audit Scotland Reports

Audit Scotland requires us to undertake reviews of the Boards responses to national reports. In 2011/12 the focus has been on:

- Scotland's Public Finances 2 – Addressing the Challenges;
- A review of Community Health Partnerships; and
- Transport for Health and Social Care.

Each report has been reviewed by either the Board and/or Audit Committee and where relevant other sub committees of the Board.

An action plan has been produced to assess the reporting structures in relation to Community Health Partnerships and the Board is currently undertaking a review of joint effectiveness in the delivery of transport initiatives.

Role of Boards

The Role of the Boards was published by the Auditor General in September 2010. The report covered central government bodies (executive NDPBs, executive agencies, non-ministerial departments and Scottish Water), NHS bodies and colleges. It examined:

- the system of accountability of Scottish public bodies and colleges;
- the public appointments system; and
- the performance of boards.

The report stated that the appointments process for non-executives is improving but there are still weaknesses. The length of time it can take to make an appointment remains too long and there has been mixed progress in widening the diversity of applicants to become non-executives.

Our work focused on the progress that The Health Board has made in seeking to improve the performance and operation of its board in particular:

- How effective is the board and is it seeking to continuously improve its performance and ways of operating; and
- How is the board ensuring that it has the skills and expertise to enable it to perform effectively.

From our review we noted four low risk areas where further improvement could be made to make the Board more effective.

Our full reporting on these areas will be presented at the September 2012 Audit Committee.

Locum Doctors

Using Locum Doctors in Hospitals was published by the Auditor General in June 2010. The report examined how efficiently and how safely NHS boards were using locum doctors in hospitals. It analysed the reasons why NHS boards were using locum doctors and how much they were spending on them. It also assessed whether NHS boards had appropriate arrangements in place for ensuring patient safety when using locum doctors.

The report found that expenditure on locums had more than doubled in real terms since 1996/97 and that the NHS could save around £6.00 million a year by some boards reducing their expenditure on locum doctors to the national average.

The aim of our review is to assess the progress that The Health Board has made in using locum doctors more economically, efficiently and effectively; and in using medical locums more safely.

Our work in relation to this area is ongoing and full reporting on these areas will be presented at the September Audit Committee.

7. Other Key Performance Information

Key Performance Information

Within this section of the report we outline other key performance areas of relevance to the Board, and the wider NHS in Scotland.

Waiting Times Management

Patient waiting times figures reported by The Health Board show a positive result for the year. Although a small number of stage of treatment target breaches have been identified, excellent performance has been reported with regards to the 18 week referral to treatment target. A significant improvement in the 18 week performance saw actual percentages of 92% and 98.7% for combined completeness and combined performance respectively. Original targets for these figures were 90% for each.

Following the PwC Report on Waiting Times Management at NHS Lothian, the Cabinet Secretary made a statement to Parliament on the 21st March 2012, in which she provided an assurance that New Ways Guidance was being applied appropriately across every other NHS Board in Scotland.

This assurance was followed by an obligation that every NHS Board in Scotland would undertake a "rigorous, specific and detailed internal audit of local waiting times management and processes, including reporting mechanisms." This reporting will take the form of two, separate reviews; -

- Audit Scotland will review the use of patient unavailability codes in the management of NHS waiting times. This will take the form of an initial desk-top exercise, resulting in a further, more detailed review into 4 or 5 Boards.
  - The findings from this investigation will be presented to the Scottish Parliament in Autumn 2012.
- Each territorial Health Board (and including the Waiting Times Centre) has been instructed to undertake a specific and detailed internal audit of local waiting times management and processes as part of each Board's internal audit programme over 2012/13. This will cover the reporting mechanisms, the controls around the processes, and compliance with guidance.
  - A report is required to be submitted to the SGHSCD by the 17th December 2012, which must have received prior Audit Committee approval.

Action 3

Equal Pay

The National Health Service in Scotland has received a number of claims for equal pay including related back pay. The NHS Central Legal Office (CLO) has been instructed by the Management Steering Group of NHS Scotland in this regard and is co-ordinating the legal response of NHS Scotland to this issue. We have confirmed with CLO that no other grievances or tribunals are outstanding against the Board.

The Health Board has developed an Equal Pay Policy that was approved in January 2011. Within this policy The Health Board recognises that in order to achieve equal pay for employees doing the same or broadly similar work, work rated as equivalent, or work of equal value, it should operate pay systems which are based on objective criteria, transparency and free from unlawful bias. The policy has been developed on a collaborative basis by the Workforce Directorate, the Equality Lead and in partnership with the recognised Trade Unions, through the local Area Partnership Forum. Peer support from other NHS Boards was sought to ensure the policy was as open, transparent, and robust as possible.

Sickness Absence

The Health Board has reported a sickness absence rate of 4.28% in 2011/12, against the external national target was 4%. This is a deterioration from the 2010/11 position of 4.14%.

Appendices

Action Plan

Ref	Recommendation	Management Response
1	The Board has a requirement to deliver cash releasing efficiency savings of £7.50 million to support the delivery of a balanced financial plan. It is commendable to note that the organisation has done well to achieve the recurring financial efficiencies in previous years whilst maintaining and improving the quality of patient care. Management should continue to demonstrate strong leadership and the promotion of ownership of the various schemes. This leadership will include monitoring and reporting on progress against savings plans, and taking early action to avoid slippage within the savings schemes identified.	**Management Response:** CRES Schemes to deliver the 2012/13 CRES target of £7.50 million have been identified. Robust monthly monitoring will continue to ensure appropriate focus is maintained to deliver the recurring savings target. If slippage is identified then the appropriate directorate will be required to produce a recovery place, which will be reported through to the Performance committee. **Responsible Officer:** Director of Finance **Due Date:** March 2013
2	A range of risks may potentially arise in relation to the Acute Services Redevelopment Project where flexibility is likely to be required between financial years to manage the double running costs of the new hospital and work required to make this happen. Brokerage requirements will need to be identified through the business case process to develop a robust financial model to support the development. Any non recurring slippage identified in year will be considered against any in year requirements and this will be monitored as a key risk through the financial review process in year. In addition, there exists a backlog maintenance issue at DGRI which will continue to be a risk and require expenditure in the period that the hospital remains operational. The resources available to fund backlog maintenance are severely restricted and areas of investment will require to be prioritised.	**Management Response:** Upon conclusion of the Outline Business Case, a review of the project delivery timescale and requirement for double running / brokerage support will be identified. Any in year flexibility will require to be prioritised between the need for urgent backlog maintenance funding and the requirement to bank resources to support the Acute Services Redevelopment Project, and any emerging service cost pressures. **Responsible Officer:** Director of Finance **Due Date:** March 2013
3	The issue of Waiting Times Management has emerged as a key risk in 2011/12 across the NHS in Scotland, resulting in a significant amount of public and political interest. The impending Internal Audit will be complex, with a significant input required to provide the required assurance around the process within the required timescales. It is important that Internal Audit agree the required resource and reporting process with the Audit Committee, ensuring appropriate prioritisation within the Internal Audit Plan, and sufficient time to agree a report through the Audit Committee for submission to the SGHSCD by the 17th December 2012.	**Management Response:** Resources to support the Waiting Times Management Internal Audit will be discussed and agreed at the Audit Committee **Responsible Officer:** Director of Finance **Due Date:** December 2012