
NHS Tayside

**Annual Report to Members and the
Auditor General for Scotland**

2011/12

21 June 2012

Contents

<i>Section 1. Executive Summary</i>	4
<i>Section 2. Introduction</i>	6
<i>Section 3. Financial Statements and Audit Opinion</i>	7
<i>Section 4. 2011/12 Financial Performance</i>	11
<i>Section 5. 2012/13 Financial Projection</i>	14
<i>Section 6. Governance and Control</i>	16
<i>Section 7. Best Value</i>	20
<i>Appendix</i>	22
<i>Action plan</i>	23

Section 1. Executive Summary

Financial Statements and Audit Opinion (Section 3)

The financial statements of the 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 Directorates (SGHD) 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**.

The financial statements and supporting schedules were presented to us for audit in accordance with the agreed timetable and the quality of working papers provided by management was of a high standard. Overall an effective audit process was achieved through a cooperative working relationship with your staff.

As a result of our work, we proposed a number of audit adjustments. All of these adjustments have been processed by management in the final version of the 2011/12 financial statements. There are no unadjusted misstatements.

2011/12 Financial Performance (Section 4)

The Board has reported a year end recurring deficit of £2.8m and a non-recurring under spend of £3.0 million, resulting in a net surplus of £0.2 million for the year ended 31 March 2012.

The Board budgeted for a break even position for the year so the final outturn for 2011/12 was in line with budget and the financial plan. The Board had a carried forward surplus of £0.098m from the previous financial year resulting in a cumulative surplus of £0.162 million as at 31 March 2012.

The approved Strategic Financial Plan contained an efficiency savings target for 2011/12 of £25.0 million, equivalent to 4.2% of the Board's general allocation. The Efficient Government target of 3.0% (£17.6 million) is included within the £25.0 million target. The target for 2011/12 also includes a non-recurring element of £8.6 million of savings. The Board has achieved its target with overall savings in 2011/12 of £26.1 million.

2012/13 Financial Projection (Section 5)

The Local Delivery Plan for 2012/13 was presented to the Board in March 2012. The Board has budgeted a break even position for 2012/13 as reported in the monthly financial monitoring returns during 2011/12.

Efficiency savings continue to be required and are retained for reinvestment locally, with explicit focus on delivering efficiencies in order to meet expected additional service cost pressures. The total savings required to be achieved by the Board in 2012/13 is £24.5 million, which is equivalent to 4.0% of the general allocation.

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 are in place. We have also considered key areas of risk to the Board including governance; partnership working; service sustainability; performance management and people management. Appropriate arrangements and reporting were evidenced.

The Code of Audit Practice requires us to review and report on the Board's Governance Statement which covers all controls including financial, operational, compliance and the management of risk. The Board has used the correct format for its Governance Statement and has outlined the processes it had employed to identify and evaluate risks. Key elements of the Board's control framework have been highlighted as have the Board's new and key risks, which is new disclosure for 2011/12. Based on our normal audit procedures, we do not disagree with the disclosures contained in the Governance Statement.

Best Value (Section 7)

As part of our procedures we have undertaken follow up work in three areas: People Management, the Role of Boards and Using Locum Doctors in Hospital. In each area the Board has demonstrated that it has embraced the original report findings and has implemented changes. Action plans have been agreed with management to conclude the findings of the reports.

Section 2. Introduction

Purpose of this report

Our Annual Audit Report 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 the Board's 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.

This report is addressed to the Board members and the Auditor General for Scotland.

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.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

This fuller responsibility is met by a range of audit services undertaken by Audit Scotland, including its appointment of PwC as appointed external auditor.

Acknowledgement

We would like to formally extend our thanks to the Board's managers and staff for the assistance they have given us during the audit process.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Glasgow

21 June 2011

Section 3. *Financial Statements and Audit Opinion*

Basis of Preparation

The financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2011/12 Government Financial Reporting Manual (the 2011/12 FReM).

Management responsibility

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made there under. This means:

- acting within the law and ensuring the regularity of transactions by putting in place;
- systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Board and its expenditure and income for the period ended 31 March 2012;
- and
- preparing a Directors' Report, an Operating and Financial Review, a Governance Statement and a Remuneration Report.

Auditor's responsibilities

We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We also review the Board's Governance Statement by considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and assessing whether disclosures in the statement are consistent with our knowledge of the Board.

Audit Process

The financial statements and supporting schedules were presented to us for audit in accordance with the agreed timetable and the overall quality of working papers provided by management were of a good standard.

Following the completion of the audit work for 2011/12 and the signing of the Financial Statements we plan to hold a debrief meeting with management to reflect on the year end process and build on the approach that was adopted this year.

Unadjusted Misstatements

Under ISA 260 - “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.

There are no uncorrected misstatements for us to bring to your attention. All adjustments identified as part of our audit fieldwork have been adjusted by management, none of these were material and were largely of a disclosure nature.

Audit Opinion

Our audit opinion concerns the true and fair statement of the 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.

We have also reviewed the Board’s Governance Statement. The Board has used the correct format for its Governance Statement, which represents a change from previous years’ Statement on Internal Control. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Approval

The Financial Statements will be submitted to the Board’s Audit Committee on the 21 June 2011 and are to be approved, adopted and signed at the Board meeting on 26 June 2012.

Audit Approach

Our audit approach was set out in our Annual Audit Plan as presented to the Audit Committee Members in November 2011. There have been no changes to our audit plan and we set out below our response to the significant risks highlighted in that plan.

Significant matters

The following matters were identified as areas of significant risk at our audit planning stage. An update on our audit response is provided below:

Management override of controls

We planned and performed our work to consider the opportunity for management override of controls. Our detailed testing included varying the number and value of our samples, detailed testing of journals posted and consideration of the Board's overall fraud procedures. There were no misstatements identified as a result of this work.

Revenue and Expenditure Recognition

As reported in our audit plan, there is a rebuttable presumption that there is a risk of material misstatement in the financial statements due to fraud relating to revenue recognition. As a non-profit oriented organisation, this risk is expanded to reflect the risk around overstatement of expenditure. Our approach in these areas sought higher assurance over the controls in place and detailed substantive testing was performed. No unadjusted errors were identified from our testing.

Stracathro and Murray Royal Mental Health Facilities

A significant service development was initiated in 2009/10 relating to the provision of two new mental health facilities at Stracathro and Murray Royal Hospital. The facilities are funded through the use of a Non Profit Distributing Organisation (NPDO). The total cost for the development of the two facilities is estimated at £95.5m split as £18.4million for Phase 1 (Stracathro) and £77.1 million for Phase 2 (Murray Royal).

Phase 1 of the developments at Stracathro was officially handed over by the NPDO provider in December 2011 resulting in the assets, liabilities and costs associated with the first phase of the project being accounted for in the year ended 31 March 2012. Phase 2 was handed over on 1 June 2012; this does not impact the 2011/12 financial year, but has been disclosed as a non adjusting subsequent event.

Advance funding of £20 million has been provided by the Scottish Government for the whole project.

The accounting for both phases is similar to the approach for previous PFI projects. The model used has been confirmed as appropriate through our audit work. No unadjusted errors were identified from our testing.

Accounting for accruals and provisions

Through our planning work we considered there to be a risk of material misstatement associated with accounting for accruals. Accrual accounting is a manual process where there may be an element of judgement required to assess their appropriateness.

We have tested the year end accruals and provisions using substantive audit procedures including cut-off and unrecorded liability testing to understand and evaluate management's rationale for determining the accruals and provisions. No unadjusted errors were identified from our testing.

Other matters

Prior Year Adjustments

There are two prior year adjustments which have been accounted for by the Board being the elimination of the Donated Asset Reserve and the Transfer of Prisoner Healthcare to NHS Scotland. The treatment as a prior year adjustment is in line with the NHS accounting manual and is required for all NHS Scotland boards.

The donated asset revaluation reserve has been eliminated from the accounts. The value of donated assets acquired during the year is treated as capital income and depreciation on the donated asset is charged to operating costs. Comparative figures in the financial statements have been re-stated accordingly.

The NHS in Scotland took over the healthcare of the Scottish prison population from the Scottish Prison Service during the year. Again comparative figures have been re-stated accordingly with disclosures of the adjustments noted in note 25 to the financial statements.

Equal Pay

As at 31 March 2012 NHS Tayside had received 121 claims under the Equal Pay Act 1970 from women seeking compensation for past inequalities with male colleagues, under their pay arrangements. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.

The Board has included a Contingent Liability Note in its financial statements, consistent with the prior year, as the potential financial impact cannot yet be assessed, in accordance with advice from the Central Legal Office. This is consistent with prior year treatment and other boards in Scotland.

Median Pay Disclosure

In 2011/12 Health Boards have been asked to disclose the ratio of the midpoint of the band of the Highest Earning Director's Total Remuneration against the Median Total Remuneration.

The reduction in the ratio from 6.36 in 2010/11 to 6.27 in 2011/12 is due to the increase in the median remuneration arising from the implementation of the Agenda for Change pay award from April 2011 while the mid range of the highest earning director's remuneration has remained constant.

Actuarial valuation

The Board participates in the National Health Service Superannuation Scheme for Scotland. The latest actuarial valuation for the scheme is dated 31 March 2008 and plans for future valuations have been put on hold by instruction of HM Treasury due to changes that have taken place as a result of the move from RPI to CPI inflation for the revaluation of liabilities, as well as plans for long term reform of public sector pension schemes. While NHS Tayside has no direct influence over this, attention should be brought to the matter as it may have a future impact if increased employer's contributions are required when the valuation is updated.

Section 4. 2011/12 Financial Performance

The table below summarises financial outturn reported by the Board for 2011/12:

NHS Tayside	£million
Recurring income	797.6
Recurring expenditure	(815.2)
Recurring savings	<u>14.8</u>
Underlying recurring surplus/(deficit)	<u>(2.8)</u>
Non-recurring income	16.0
Non-recurring expenditure	(24.3)
Non-recurring savings	<u>11.3</u>
Non-recurring surplus/(deficit)	<u>3.0</u>
Financial surplus/(deficit)	<u>0.2</u>
Underlying recurring surplus/(deficit) as a percentage of recurring income	<u>(0.35)%</u>

As auditor we do not express an opinion on the above analysis. However the figures above have been confirmed as accurate by the NHS Tayside Director of Finance on 4 June 2012.

Performance against Key Financial Targets

The Board has reported the achievement of all three of its financial targets in the year, as follows:

	Limits set by SGHD £million	Actual Outturn £million	Variance (over)/under £million
Core Revenue Resource Limit (RRL)	679.4	679.2	0.2
Non-core Revenue Resource Limit	33.8	33.8	-
Capital Resource Limit (CRL)	18.9	18.9	-
Non-core Capital Resource Limit	18.4	18.4	-
Cash Requirement	784.0	783.6	0.4

The Board reported a surplus of £0.162m for 2011/12 in line with the financial plan. The Board plans to carry forward the surplus to support the 2012/13 financial plan.

The overall performance of NHS Tayside for the year on the core RRL is an underspending of £0.2m which resulted from an overspend of £2.1 million on the operational results largely due to delays in identifying and achieving efficiency savings in the Medical and Surgical Groups. This has been offset by an underspend of £1.6 million on depreciation due to the savings generated from phase 2 of the extended asset lives exercise and by other unspent reserves of £0.7 million.

Depreciation

During the 2011/12 year a further review of compliance with International Accounting Standards was commissioned in respect of depreciation of assets valued under the depreciated replacement cost methodology. The outcome of the review resulted in the useful economic lives of certain components of these assets being lengthened, which in turn resulted in a reduction in the annual depreciation charge. As this was a change in an accounting estimate there was no requirement for a prior year adjustment.

Non-recurring Funding Allocations

During the 2011/12 year the Board received £65.6m of non-recurring funding (8.7% of total funding) from the Scottish Government as per the table below:

Non recurring funding	£million	
Revenue		
Core Revenue Resource Limit	(5.6)	Core revenue adjustments and allocations
Non-core Revenue (ODEL) Resource Limit	6.6	IFRS revenue including NPDO impairment of £3m
Non-core Revenue (DEL) Resource Limit	19.3	Capital grants and depreciation
AME Resource Limit	8.0	Impairments, movements in provisions and donated assets depreciation
Total non recurring revenue	28.3	
Capital		
Core Capital Resource Limit	18.9	Capital formula allocation and capital grants
Non-core Capital (ODEL) Resource Limit	18.4	Capital for the NPDO phase 1 project (Stracathro)
Total non recurring capital	37.3	

Capital Expenditure and PFI/NPDO schemes

Core capital expenditure for 2011/12 was £19.1 million (2011: £23.4 million), which largely represents progress on four major projects: Nuclear Medicine at Ninewells Hospital (£6.5m), endoscopy unit (£0.6m), assisted conception unit (£2.2 million) and the Stracathro kitchen project (£2.0m). The balance of expenditure is on smaller items and projects including medical equipment and e-Health.

The Stracathro Mental Health Facility (Phase 1) became operational from December 2011. This resulted in fixed asset additions of £18.4 million, which were subsequently impaired by £3.0 million. This was identified through the year end valuation identifying impairment in respect of elements of professional service costs incurred in Phase 1. In addition a finance lease liability of £18.4 million was created and reduced by £3.9 million of funding received from the Scottish Government. Phase 2 of the NPDO for the development at Murray Royal will become operational in 2012/13 with an estimated capital value of £77.1 million.

Two PFI schemes also exist, the Carseview Centre, located on the Ninewells Hospital, and the Whitehills Community Resource Centre in Forfar, commencing in 2001 and 2005 respectively.

Action 1

Severance Costs

No severance costs or redundancy provisions have been included in the 2011/12 financial statements.

Efficiency Savings

The Board's approved Strategic Financial Plan contained an efficiency savings target for 2011/12 of £25.0 million, equivalent to 4.2% of the Board's general allocation. The Efficient Government target of 3.0% (£17.6m) is included within this £25.0 million target.

Total savings reported in respect of Efficient Government targets for 2011/12 amounted to £20.8 million, including reported non-recurring savings of £6.0 million. Further additional savings amounting to £4.9 million were also reported resulting in total savings for the 2011/12 year of £26.1 million, as follows:

NHS Tayside	Savings £million
Steps to Better Healthcare (SBH):	
Workforce	0.1
Mental health	1.6
Medicines management	2.5
Other SBH	1.6
Corporate	1.9
Asset lives	4.6
Procurement	1.0
Service efficiencies	7.1
Corporate non-recurring (excluded from Efficient Government target)	<u>5.7</u>
Total reported	<u>26.1</u>

Section 5. 2012/13 Financial Projection

The table below summarises the Board's 2012/13 projected outturn:

NHS Tayside	£million
Recurring income	796.6
Recurring expenditure	(814.2)
Recurring savings	<u>14.5</u>
Underlying recurring surplus/(deficit)	<u>(3.1)</u>
Non-recurring income	10.0
Non-recurring expenditure	(16.9)
Non-recurring savings	<u>10.0</u>
Non-recurring surplus/(deficit)	<u>3.1</u>
Financial surplus/(deficit)	<u>0.0</u>
Underlying recurring surplus/(deficit) as a percentage of recurring income	<u>(0.39)%</u>

Provided and confirmed by the Director of Finance on 4 June 2012.

Reliance on Non-recurring Funding

The 2012/13 plan assumes that net reliance on non-recurring funding sources to cover recurring expenditure will be £3.1 million. This is expected by management to reduce to £1.5 million in 2013/14 and to a breakeven position by 2014/15. The level of reliance on non recurring funds has continued to reduce over the past few years.

Use of Non-recurring Funding

In addition to the recurring funding allocations receivable in 2012/13, the Board has budgeted for a general non-recurring allocation of £10.0 million to cover miscellaneous non-recurring sums which may be received during the year. The total non-recurring allocations for 2011/12 were £16.0 million. Management does not make any commitments against the non-recurring allocations until they are confirmed by the Scottish Government.

2012/13 Budgets and Cost Pressures

The Board has budgeted to break even in 2012/13. The budget includes a number of financial assumptions and is dependent on a range of efficiencies and savings targets being met. The budget has been based on additional SGHSCD core funding of £9.9 million, based on an uplift of 1.1%, change fund and prisoner health budgets.

Additional expenditure (including pay uplifts, inflation, other commitments and a £1.5m contingency) in 2012/13 is forecasted to be £34.4 million, leaving a shortfall of £24.5 million to be met through savings and efficiencies.

Efficiency Savings

Efficiency savings continue to be required to achieve financial balance and for local reinvestment. Total savings required in 2012/13 are £24.5 million, which is equivalent to 4.0% of the general allocation.

Severance Costs

The Board continues to commit to the policy of no compulsory redundancies for public sector workers. Given the saving requirement of £24.5 million in 2012/13 the Board will consider savings through natural turnover and redeployment. The Board has indicated that it will follow established processes for workforce changes in consultation with staff groups and representatives.

Action 2

Capital Investment and PFI/NPDO schemes

Under guidance issued by the SGHSCD Capital and Facilities Unit, a 5 year capital plan which is longer term than the 3 year revenue plan has been developed.

A rolling 5 year capital forecast is maintained by the Board's capital accounting team to monitor progress on projects and to manage slippage. Each year the rolling forecast is reviewed and updated for any new projects. In January 2012, an exercise was undertaken to identify the top three priority projects from each of the Service Groups, using a template that took into account national and NHS Tayside strategic objectives. This process fed into the capital forecast which was presented to the Executive Management Team and the Capital Scrutiny Group in February 2012. The Capital Scrutiny Group reports changes to the capital forecast to the Finance & Resources Committee on a monthly basis.

Section 6. Governance and Control

Overall Governance Arrangements

Under the Code of Audit Practice we are responsible for reviewing and reporting on the Board's corporate governance arrangements as they relate to:

- reviews of corporate governance and systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption.

There have been no significant changes to the governance arrangements operating at the Board during 2011/12. The main standing committees of the board required under the Scottish Health Plan, including their roles and responsibilities are as follows:

Audit Committee

The purpose of the Audit Committee is to ensure compliance with NHS Tayside's Code of Corporate Governance and that an effective system of internal control is maintained. The duties of the Audit Committee are in accordance with the NHS Audit Committee Handbook. The Committee is attended by both internal and external audit; senior officials are invited to attend to respond to auditors' reports. The Committee met on six occasions during the year.

Improvement & Quality Committee

The Committee is responsible for reviewing progress on all aspects of Patient Safety, Clinical Governance and Clinical Risk. The Committee receives assurance reports from across the clinical governance/quality activities within NHS Tayside from its established Clinical Quality Forum. The Committee met on five occasions during the year.

East of Scotland Research Ethics Service (formerly Medical Research Ethics Committees A & B)

The purpose of the Committee is to provide assurance that a mechanism is in place to undertake the ethical review of medical research to protect the dignity, rights, safety and wellbeing of actual or potential research participants. It shares this role with others as described in the Research Governance Framework for Health & Community Care. The two former Tayside Committees met on ten occasions during the period April 2011 to September 2011 and the merged Committee met on five occasions from October 2011 to March 2012.

Remuneration Committee

Its main purpose is to ensure application and implementation of fair and equitable pay systems on behalf of the Board as determined by Ministers and the Scottish Government. The Committee met on five occasions during the year.

Staff Governance Committee

Its main purpose is to advise the Board on its responsibility, accountability and performance against the NHS Scotland Staff Governance Standard, addressing the issues of policy, targets and organisational effectiveness. The NHS Reform (Scotland) Act requires Boards to put and keep in place arrangements for the purpose of improving the management of the officers employed, and for workforce planning. The Committee met on six occasions during the year.

Overall

As reported in our Interim Management Letter, the Board has an established committee framework in place. All committees have Terms of Reference governing their activities. As the Board is undergoing a number of changes to its non executive membership through April to June 2012, a programme of development has been put in

place for the five new non executives who will be in place from 1 April 2012. In addition to meeting with the Chairman, a formal induction day with Executive Directors was held on 13 April 2012 and series of Development Events on Risk Management and Performance Scrutiny are in progress.

Systems of Internal Control

The results of our initial work on systems of internal control were communicated to the Audit Committee in our Interim Management Letter presented to the Audit Committee in May 2012. The report contained seven recommendations to improve controls, two of which were graded as higher risk. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

As part of our year end testing, we also identified further areas of for improvements in internal control. As we were able to identify mitigating controls to provide assurance to us over the financial statement, these matters have been reported in a Final Management Letter dated June 2012.

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 us gaining an understanding of the internal audit function to determine if it would be effective and efficient for us to use their work.

During 2011/12, the Board continues to use the Fife, Tayside and Forth Valley Audit and Management Services. We have reviewed the work of internal audit and have, where appropriate, placed reliance on their work. This has been of particular benefit in identifying key financial controls and the processes in place.

Partnership Working

The Board engages with various partners including Local Authorities, voluntary and charitable organisations, other NHS Boards, private healthcare providers and the Scottish Government Health and Social Care Department (SGHSCD).

The Board is actively engaged with Dundee, Angus and Perth and Kinross Councils as main statutory partners. The other statutory partners that NHS Tayside has committed to work with include Tayside Police, Tayside Fire and Rescue Service, Scottish Enterprise Tayside, Communities Scotland as well as academic institutions and representatives of the private sector.

The Board also has Community Health Partnerships (CHP) in Angus, Dundee and Perth and Kinross. However, as per the Cabinet Secretary's announcement in December 2011 these will be replaced by Health and Social Care Partnerships.

The Staff Governance Committee has also established an Area Partnership Forum that has the responsibility for facilitation and monitoring the effectiveness of partnership working between management and staff in NHS Tayside and with key Contractors. It also approves Employment Policies through this Partnership process.

National Waiting Times

The Board has three targets for 18 weeks referral to treatment. As at the end of March 2012, the Board reported that it had exceeded two of its three referral to treatment targets; with the third, the percentage of patients seen within 18 weeks falling short of the 95% target at 93.6%.

The findings of the external review on waiting times management at NHS Lothian were raised in the Scottish Parliament by the Cabinet Secretary for Health in March 2012. A key finding of the report was that periods of unavailability to some patients were being inappropriately applied in order to artificially reduce the numbers of patients who would otherwise have been reported as breaching waiting times guarantees. Another significant issue raised was that the management culture had contributed to the situation by applying pressure to find tactical solutions to report the achievement of waiting times targets rather than tackling the root causes of delays in treatment.

As a result of this report, the Board's Chief Executive instructed a report into the Waiting Times Governance Processes at NHS Tayside. In April 2012 the Board published the report, which was discussed at an Executive Management Team (EMT) meeting. Recommendations were approved by the EMT to implement enhancements to waiting list management processes.

In line with the mandate from the Cabinet Secretary, the Board's Internal Auditor will also undertake a specific and detailed internal audit of local waiting times management and processes covering reporting mechanisms, controls around the processes and compliance with guidance.

Action 3

Performance Management

The NHS Scotland Quality Strategy was launched in May 2010 and is underpinned by three Healthcare Quality Ambitions: person centred, safe and clinically effective. The aim of the Strategy is for everyone in Scotland to work together to ensure better health and higher quality healthcare services which are flexible and reactive to each individual circumstance. Following the release of the Strategy, the Board established the Tayside Centre for Organisational Effectiveness (TCOE) in February 2011 with lead responsibility for implementation and monitoring improvements to Quality within the Board.

NHS Tayside has an embedded and evolving performance management framework in place for monitoring and reporting on performance. Work is also ongoing to further embed the Quality Strategy into the governance and wider performance agenda through the Strategic Financial Plan, National Performance Framework and Steps to Better Healthcare.

The Improvement and Quality Committee is responsible for reviewing progress on all aspects of Patient Safety, Clinical Governance and Clinical Risk. The Committee also receives assurance reports across the clinical governance/quality activities within NHS Tayside from its established Clinical Quality Forum. The purpose of the Clinical Quality Forum is to manage the clinical governance and quality assurance activities within the Board, through prioritising and agreeing a work programme that is intended to provide assurance that appropriate systems for clinical governance and quality activities are in place.

Sickness absence

The reported average rate of absence from sickness declined from the prior year to 4.84% (2010/11: 5.15%). While this represents an improvement it continues to be well above the Scottish Government target of 4%. The Board continues to monitor the result, while actions taken and planned next steps are reported to the Staff Governance committee.

Action 4

Service Sustainability

Service redesign and sustainability continue to be a key focus for the Board and presents ongoing challenges due to the tightening budget and increasing demand for services. Steps to Better Healthcare is the Board's programme of activity to redesign services and it aims to use innovative ways to improve the delivery of services in Tayside.

The Steps to Better Healthcare programme is consistent with the Local Delivery Plan and Strategic Financial Plan. The new mental health facility at Stracathro is a key part of the Board's service redesign which has been funded through a Non Profit Distributing Organisation. Integrated Community Services and Palliative care services are also key parts of the Board's transformational programmes.

The Board has included service redesign as a key risk in the Corporate Risk Register and has arrangements in place to obtain staff suggestions of areas of efficiency. The Steps to Better Healthcare Programme Board reports to both the Improvement and Quality Committee and the Finance and Resources Committee as appropriate.

Prisoner Healthcare

During 2011 the healthcare for prisoners in Scotland was transferred to the NHS. For NHS Tayside this resulted in it taking responsibility for prisoners in HMP Perth and HMP Open Estate.

The impact of the transfer of prisoner healthcare services to NHS Tayside has resulted in a prior year adjustment of £2.6 million to the Board's Statement of Comprehensive Expenditure. The impact on the current year of £2.8 million has been offset by an additional funding allocation.

The impact of this transfer has also been subject to an Internal Audit review where the findings were categorised as 'Broadly Satisfactory'.

Section 7. Best Value

Local Response to National Performance Reports

Audit Scotland undertakes studies on topics relevant to the performance of health bodies. While the recommendations from some of the studies have a national application, elements of the recommendations are also capable of implementation at Board level.

As part of our 2011/12 audit procedures we have requested evidence of how the Board has responded, at a local level, to relevant national health and community care reports published between March 2011 and April 2012.

In each case the reports noted below have been presented to the Board's Audit Committee:

- Community Health Partnerships;
- Transport for health and social care; and
- Scotland's Public Finances: Addressing the challenges

Using Locum Doctors in Hospitals – follow-up

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. Audit Scotland considered the reasons why NHS boards were using locum doctors and how much they were spending on them. The report also assessed whether NHS boards had appropriate arrangements in place for ensuring patient safety when using locum doctors.

We undertook a follow-up of the actions identified in the original report, posing three key questions to NHS Tayside:

1. Can the Board show it is using locum doctors more efficiently?
2. Is the Board managing demand for locum doctors effectively?
3. How is the Board ensuring patient safety when using locum doctors?

Based on management interviews and data provided by management, NHS Tayside has demonstrated that the level of use of locum doctors and the associated cost has reduced from £2.17 million in 2009/10 to £1.39 million in 2011/12. The Board has also implemented improved reporting to senior management of the use and reasons for using locum doctors.

The Board continues to implement improvements in its induction processes and access to IT systems for locum doctors.

The Role of Boards – follow-up

We have undertaken follow-up discussions with management on NHS Tayside's response to *The Role of Boards* which was published in September 2010. The report examined the role and work of boards and considered:

- the role of boards and how they are accountable to the Scottish Government;
- board members' skills and expertise; and
- how boards operate.

NHS Tayside has a strong and embedded Board with performance reporting that is open to its stakeholders.

NHS Tayside has recently had a number of changes in the non-executive members. In addition to meeting with the Chairman, a formal induction day with Executive Directors was held on 13 April 2012 and series of Development Events on Risk Management and Performance Scrutiny are in progress.

Best Value - People Management

We have undertaken follow up discussions with management on NHS Tayside's actions in responses to the Best Value use of resources 2009/10 report on people management, reported in July 2010.

NHS Tayside was originally rated as having "better practice". However, in order to meet advanced practice three actions were taken forward by the Staff Governance Committee during 2011. The Board has developed joint priorities and investment plans with its partners and has made improvements to its succession planning through the revised Workforce Plan. One action regarding benchmarking remains in progress and the Board continues to work with NHS Information Services Division (ISD) to build a suite of appropriate benchmarking information.

[Date]

Appendix

Action plan

Finding	Management Response
1. Murray Royal Mental Health Facility	
Management should ensure that a revaluation of phase 2 of the mental health development at Murray Royal is undertaken well in advance of the year ending 31 March 2013 to identify and provide the Scottish Government of early warning on any potential impairment.	Instruction was issued on 12 June 2012 to the Board's Independent valuers to provide an early indication to Scottish Government on the potential impairment in 2012/13.
2 Severance	
The Board continues to commit to the policy of no compulsory redundancies for public sector workers. However, given the saving requirement of £24.5 million in 2012/13 the Board will consider savings through natural turnover and redeployment. However this may not be sufficient to meet the Board's required level of efficiency targets.	Savings target of £24.5m seen as the third year of an extremely challenging level. A level of the savings by nature of the fact that we spend in excess of £400m on pay is expected to come from a reduction in pay spend in 2012/13. Management is currently working through the Steps to Better Health Programme in partnership to identify further efficiencies, redesign opportunities and removing unnecessary tasks and steps in patient pathways. Paper on proposed workforce efficiencies considered at Area Partnership Forum on 6 June 2012 highlighting the proposals around the £8m savings target in 2012/13. Reassurance once again given that every opportunity to deploy the workforce in the most efficient way to reduce staffing costs and protecting posts is the main priority.

Finding	Management Response
<p>3 National Waiting Times</p>	
<p>The proposed Internal Audit of national waiting times will be complex, with a significant input required to provide the required assurance around the process within the required timescales.</p>	<p>Internal Audit attended the scoping meeting with Scottish Government on 31 May 2012. Paper seeking delegated power to Director of Finance to prioritise the assignment within the existing Internal Audit Plan will be considered at the Audit Committee in June 2012.</p>
<p>It is important that Internal Audit agrees 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</p>	<p>Early discussions with Chief Executive, Director of Finance, Caldicott Guardian and Employee Director around the full scope and approach with fieldwork anticipated July -September 2012 and reported through Board to Scottish Government by December 2012 which is consistent with the timetable.</p>
	<p>Internal Audit to meet with Business Unit to discuss approach and from an operational perspective resources are in place to assist with the fieldwork without compromising delivery of the targets in 2012/13.</p>
<p>4 Sickness absence</p>	
<p>The Board continues to exceed the target sickness absence of 4% for the year.</p>	<p>NHS Tayside is focussed on achieving sustainable reductions in sickness absence through targeted interventions and, as part of our approach to create the right environment to promote positive attendance at work.</p>
<p>The Board should continue to develop and implement new steps to reduce sickness rates for the Board.</p>	<p>A revised policy and procedure has been developed together with an appropriate implementation and communication plan .</p>
	<p>An evaluation is presently being undertaken of an employee support service.</p>

The matters raised in this and other reports that 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 matters arising and in particular we cannot be held responsible for reporting all risks in your business. This report has been prepared for and only for NHS Tayside in accordance with the terms of our engagement letter with Audit Scotland and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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