



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

The State Hospitals Board for Scotland

Annual audit report to The State Hospitals Board for Scotland
and the Auditor General for Scotland

Year ended 31 March 2009

29 June 2009

AUDIT

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About this report

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

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

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

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

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Executive summary

The hospital is currently undergoing redevelopment in line with the strategic aim of the Board to “ensure patients are treated in accommodation appropriate to their needs, and in an environment that supports rehabilitation”. The full business case for this was agreed by the Scottish Government Health Directorate in 2007 and construction work commenced in March 2008. The development has progressed significantly during the 2008-09 financial year; management have had a number of issues to resolve during this time, including maintaining both patient care and the security of the site. The financial year 2009-10 is expected to see the opening of the first redeveloped areas of the hospital, being the activity centre and essential services, with patients beginning to move into the new wards in Spring 2011.

Reductions in bed numbers are critical to ensuring that the redevelopment remains on-course. The Board is currently on schedule with the planned reductions, with numbers falling to 153 in March 2009, ahead of the target of 157.

As well as meeting strategic aims over patient treatment and care, the hospital redevelopment will help the Board to meet sustainability targets. This will be achieved through the use of renewable fuel for heating and hot water and the overall energy-efficient design of the redeveloped hospital. These features of the design will also help the Board reduce costs and meet ongoing efficiency targets.

The Board was impacted by significant cost pressures in the year as a result of treating the one remaining female patient who was only transferred to another health board at the end of March 2009. The majority of this and other cost pressures in the year were absorbed by effective financial management, although £295,000 of brokerage funding was required from Scottish Government Health Directorate towards the end of the year.

As well as the mental health of patients, the Board also focuses significant effort on the physical health of patients and monitors this through several different key performance indicators. The Board has reported improvements in a number of these areas, including patient obesity (down from 85% in 2007-08 to 82% in 2008-09) and levels of patients who smoke (down from 84% in 2005 to 62% in 2008).

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

Audit framework

This year was the third of our five-year appointment by the Auditor General for Scotland as external auditors of The State Hospitals Board for Scotland ("the Board"). This report to the Board and Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan discussed with the audit committee on 29 January 2009.

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

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including financial outturn for the year ended 31 March 2009 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, patient safety, partnership working and our consideration of the work of internal audit; and
- **performance management** and the Board's arrangements to achieve efficiency savings.

Best Value

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

Plans are being developed for the application of a series of toolkits on the use of resources in future years based on an assessment of the Board's priorities and risks during the audit planning process.

Responsibilities of the Board and its auditors

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

Action plan

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2008-09 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

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

Background – service overview

Service overview

Construction work on the redevelopment of the hospital continued in 2008-09. Patients are anticipated to be able to move into new wards in early 2011, with the final landscaping work completed later that year. The redesign of the hospital resulted in increased unplanned revenue costs due to a delay in transferring the last female patient from the hospital and the mandatory additional staff that were required for this patient's care.

The Board has established an appropriate framework for the monitoring and control of financial management, including over the hospital redevelopment.

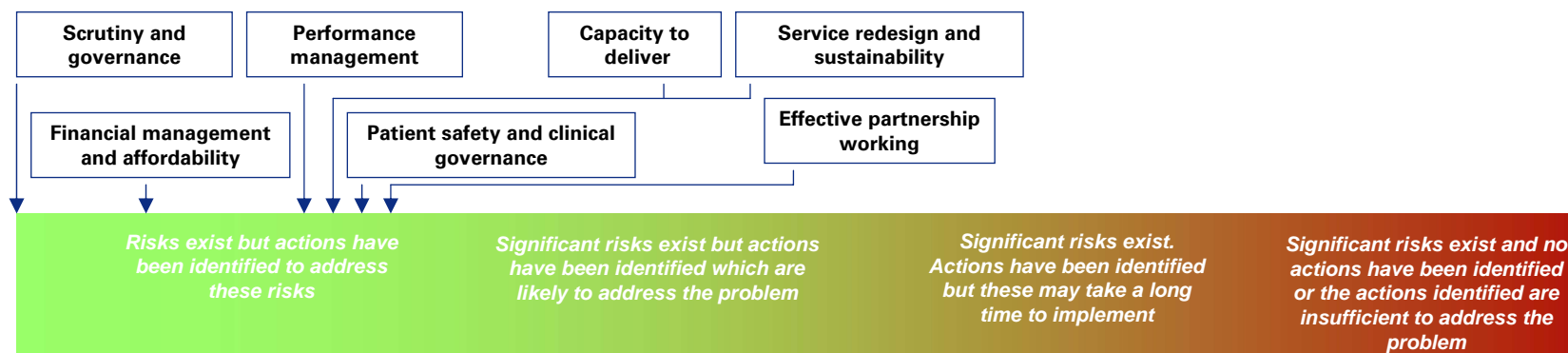
In January 2009 the Board identified a potential overspend for the year ended 31 March 2009 and subsequently agreed brokerage with the Scottish Government Health Department to provide financial cover. This evidences the ability of the Board to monitor its financial position and to take appropriate action when required.

Management considers the board to be very financially minded and willing to actively challenge information provided in financial reports. Updated financial reports are prepared by the deputy director of finance and reviewed at each bi-monthly board meeting. Performance against budget is documented within these reports

Financial management arrangements continue to be strong, as demonstrated by achievement of the balanced outturn position for the year. A five year financial plan has been prepared and, although management consider it challenging, they are confident that it is achievable through redevelopment of the hospital.

During the year the Board was informed that it had been successful in its application for the *Investing in Volunteers* standard. It is a requirement for all NHS Boards to achieve this accreditation by 2010 in respect of compliance with *Better Health: Better Care*. The hospital was the first health board in Scotland to achieve the standard. The Board was also noted during the year to be one of only two organisations in Scotland to have achieved both the *Healthy Working Lives* Gold Award and the *Mental Health Commendation Award*.

The Board's arrangements to achieve national priorities and mitigate against key risks can be characterised by us as follows:



We have issued unqualified opinions on the financial statements and the regularity of transactions reflected in those financial statements and have drawn attention to the Board's contingent liability in relation to equal pay claims.

Key issues arising from our audit of the financial statements are:

- Revaluation of fixed assets – in line with the Financial Reporting Manual (“FReM”) and the accounting policies of the Board, land and buildings were revalued in March 2009, resulting in a revaluation downwards of £352,000. The valuer has confirmed that this movement is due to market fluctuations in price and accordingly the majority of the movement on revaluation has been debited to the revaluation reserve, with an element written-off to the operating cost statement.

We have reviewed the accounting treatment of this revaluation and consider it to be appropriate.

- Rates – a review of the rateable value of the site was partially concluded in the year, resulting in the Board obtaining a rebate in respect of rates paid in prior years and giving a non-recurring benefit of £184,000 in 2008-09.

Management are currently pursuing a larger rebate, which has correctly not yet been recognised due to uncertainty.

- *Agenda for Change* – the process for measuring the expected liability under *Agenda for Change* has continued on the same basis as prior years. At 31 March 2009, there were 37 employees still to be assimilated. The accrual at that date has been calculated as £631,000, down considerably from £1,210,000 in the prior year due to significant settlements and payments during the year.

The year end accrual also includes an amount in respect of the estimated levels of appeals which, similar to the main accrual, has been calculated on a detailed basis.

We have reviewed the basis of calculation of the *Agenda for Change* accrual and consider it to be appropriate.

Recommendations

We identified one recommendation for development in relation to resolving equal pay issues. This is included in appendix one.

Reporting arrangements and timetable

In accordance with the Board's timetable, draft financial statements were available for audit on 6 May 2009. This allowed for timely completion of the audit and consideration and approval of the financial statements by the board on 18 June 2009.

Audit opinions and key issues

Audit opinion

We have issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements and have drawn attention to the Board's contingent liability in relation to equal pay claims.

Key issues arising during our audit of the financial statements

Our audit plan overview and interim management report identified two key risk areas:

Key risk area	Conclusions
<p>Hospital redevelopment</p>	<p>Construction work on the redevelopment of the hospital has progressed significantly in 2008-09. Patients are anticipated to be able to move into new wards in early 2011, with the final work completed later that year. The redesign of the hospital resulted in increased unplanned revenue costs due to the delay in transferring the last female patient from the hospital and the additional security requirements during construction.</p> <p>The Board has transferred the risk of the next stage of the installation of the personal attack alarm system to the developer, Skanska. Tenders for this work are currently being assessed with a decision expected to be made by management soon. This will reduce the risk of cost-creep to the Board, and also aid interim security procedures. It is expected that the additional works instructed, for Skanska to install the PAA system, will add eight weeks to the completion date for phase one works.</p> <p>The costs of security staff and advisors have been capitalised where they meet the definition in Financial Reporting Standard 15: <i>Tangible fixed assets</i>.</p> <p>The 2008-09 financial statements reflect accelerated depreciation of £9.6 million to write-off the remaining value of buildings to be demolished to the expected date of demolition. This has been calculated in line with the financial model developed in the prior year and has been accounted for as "annually managed expenditure".</p>
<p>Financial position</p>	<p>We noted in our audit plan in January 2009 that the latest outturn projection was an overspend of £300,000, mainly from additional fuel costs and re-development double running costs (a reduction on the November 2008 projection). The final outturn for the year was a breakeven position following brokerage of £295,000 received from Scottish Government Health Directorate.</p> <p>Cost pressures of around £2.6 million (largely non-recurring) relating to the rising need for security escorts, overtime in the wards, <i>Agenda for Change</i> back dated costs, a delay in the programme of ward based changes, the inability to close the women's service, rising fuel costs and senior team cover were accommodated during the year. All of these had been identified as risks when setting the budget, however it was not foreseen that all would materialise in the year. Pressures were managed through review of the capitalisation strategy for the full business case (capitalising costs were possible under Financial Reporting Standard 15: <i>Tangible Fixed Assets</i>), holding vacancies, a back dated rates rebate, additional VAT recovery, reduction in funding for estates maintenance and use of the Board's contingency. The net effect was a forecast of £295,000 overspend which could not be managed internally. This position was supported by brokerage from Scottish Government Health Directorate, which has since been repaid in 2009-10.</p>

Revaluation of tangible fixed assets

As required by the Government Financial Reporting Manual ("FReM") and the accounting policies of the Board, the fixed assets were revalued in the year using indices provided by the external valuer. This resulted in a revaluation downwards of these assets by £352,000 in the year. Under FRS 15 such revaluation movements should be debited to the operating cost statement unless they are due to market fluctuations. Accordingly, management confirmed with the valuer that the decrease arose due to market fluctuations. The majority of the movement on this valuation has therefore been debited to the revaluation reserve. An element has been written-off to the operating cost statement where the revaluation reserve on specific assets had been extinguished.

We have reviewed these accounting transactions and consider them to be appropriate and in line with FRS 15.

Rates prepayment

During the year a review of the rateable value of the site was partially concluded. The Board has obtained a rebate in respect of rates paid in prior years, now considered to have been overpaid. This rebate is due to the redevelopment of the site and covers the period from 2005 to 2009; this has been accrued into 2008-09 resulting in a reduction of the operating costs for the year of £184,000.

Management has noted that their advisers are currently pursuing a larger claim for a rates rebate which has been estimated at over £1 million. The outcome of this second appeal is currently uncertain and therefore this has correctly not been taken account of in the 2008-09 financial statements.

Agenda for Change

In 2006-07 management adopted a detailed approach to the calculation of the likely cost of *Agenda for Change* on an employee-by-employee basis. This process has continued on the same basis into 2008-09. At 31 March 2009, there were 37 employees still to be assimilated and therefore the Board continues to carry an accrual for the likely cost. The accrual at 31 March 2009 has been calculated as £631,000 and this has been recognised in the financial statements for the year. This is down considerably from £1.2 million on the prior year due to significant levels of settlement payments in the year. The accrual at the year end also includes £200,000 in respect of estimated levels of appeals, which has again been calculated on a detailed basis.

We have reviewed the basis of calculation of the accrual and consider it to be appropriate.

Equal pay

Article 141 of the Treaty of Rome requires member states to ensure and maintain “the application of the principle that men and women should receive equal pay for equal work”. This was expanded on in the Equal Pay Directive, which made it clear that all such discrimination should be eliminated from all aspects of remuneration. As at 31 March 2009, NHS bodies in Scotland had received some 12,500 claims for backdated pay increases arising from this requirement and referred them to the NHS Central Legal Office. It is possible that these claims represent a current liability for NHS boards. While the NHS Central Legal Office has not recorded any claims directly against the Board, a number of claims were submitted to previous employers prior to staff transferring to the Board’s employment. If successful, these claims will fall to be settled by the Board.

The NHS Central Legal Office has co-ordinated the response to all claims and advises that, until named comparators are identified, a view cannot be taken either about the likely success, or otherwise, of the claims or the value of them. Further information is, therefore, required about the claims and there are fundamental legal issues that require to be tested to allow any assessment of financial risk to be included in the financial statements. On the basis of this position, and following discussions with the Scottish Government Health Directorate and the NHS Central Legal Office, the Board has recognised its potential financial exposure by way of a contingent liability in its financial statements.

In the light of the potential significance of this matter to the Board individually, we have included an “emphasis of matter” paragraph in our audit opinion. We strongly encourage management, working with the Scottish Government Health Directorate and other NHS boards, to progress resolution of this matter so that there is clarity over the Board’s financial position.

We identified one recommendation relating to equal pay and have included in the action plan in appendix one.

Recommendation one

Regularity of transactions

In order to gain assurance over the regularity of expenditure we updated our understanding over the processes in place to receive Scottish Government Health Directorate circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points.

All circulars are received by either the chief executive or her assistant and allocated to the relevant director for action. A record is kept of all circulars received and the individual responsible for actioning each.

We have considered the specific requirements of a number of financial circulars, particularly those in relation to remuneration, and did not identify any instances of non-compliance.

Service organisations

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

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

The Board received a SAS 70 service auditor report in respect of the financial ledger shared service, which concludes that:

"In our opinion, the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from 1 April 2008 to 31 March 2009, except in the following noted respects:

- *new user access, removal of user access and certain other amendments have not been authorised in all cases by individuals recorded to do so on authorised signatory lists; and*
- *the creation and amendments of standing data has not in all cases been actioned in accordance with required policies and could not always be supported by documentary evidence."*

Management discussed findings from the SAS 70 report at a meeting with NSS and it was agreed that these matters were being appropriately addressed and that, whilst laid down controls were not operating as stated, operational procedures in place were not unsatisfactory. Further, management believe that there are sufficient compensating controls at a local level to mitigate these two weaknesses.

Implementation of International Financial Reporting Standards

The public sector will prepare full IFRS compliant financial statements for the year ending 31 March 2010. This is preceded by a shadow conversion process.

The 2007 Budget had announced that central government and health bodies would report under international financial reporting standards ("IFRS"), as adapted by HM Treasury through the financial reporting manual ("IFReM"), from 2008-09. Following consultation with Government departments and the Financial Reporting Advisory Board on the technical work needed to implement this change, the Government now intends to move to IFRS from 2009-10 as announced in the 2008 Budget.

Health bodies will be required to prepare their accounts on the basis of the IFReM from 2009-10. Shadow IFReM financial statements, including an opening balance sheet, will be required for 2008-09. The shadow IFReM financial statements were subject to a 'dry run' audit in accordance with timescales prescribed by the Scottish Government. The timescales are set out in the table below. NHS Scotland has contracted with a third party for support to individual health boards on the application of IFRS.

	Presented for audit	Completion of dry-run audit
Opening 2008 IFRS based balance sheet	28 November 2008	28 February 2009
2008-09 shadow IFRS based financial statements	30 September 2009	30 November 2009

As a result of the audit of opening balances a report was issued to management highlighting the work done, our findings and areas for further work by management. Our work was undertaken in accordance with guidance included in Audit Scotland's note for guidance 2008/6: *Auditors' role in the implementation of international financial reporting standards*. The key points to note from our audit were that management must give further consideration to accounting policies, notes and disclosures, the valuation of fixed assets and must also ensure that they have a sufficient audit trail for IFRS work performed.

Our work on the 2008-09 shadow IFReM based financial statements will be performed as part of our 2009-10 audit.

Use of resources

The Board met its financial targets – revenue resource limit, capital resource limit, and cash requirement. The outturn against the revenue resource limited reported in the financial statements was higher than the financial plan due to brokerage of £295,000 received from Scottish Government Health Directorate. This was included in the financial plan for 2009-10 and has since been repaid.

The 2009-10 financial plan forecasts a breakeven cumulative outturn against the revenue resource limit reflecting financial balance for the year. Achievement of the plan will be challenging due to inflation in utility prices. There are also a number of risks around the redevelopment which could have a financial impact.

The Board continues to operate to the five year plan and has updated this to reflect current conditions. Management continues to use the financial plans to monitor progress of the redevelopment and has noted this area as a key risk to achieving budgeted results going forward.

Staffing and nursing levels are being closely monitored to ensure costs are appropriately managed with reducing patient numbers. There have been significant reductions in the level of overtime over the year, which management is also monitoring.

The redevelopment of the hospital includes a number of sustainability features to drive efficiencies and cost savings going forward.

Management has considered the Audit Scotland report on asset management and are currently working on an action plan.

Recommendations

We did not identify any significant recommendations for development of the Board's arrangements to manage the use of resources.

Financial management

Financial position

Performance against the three financial targets was as follows:

£'000	Original forecast	Final allocation	Outturn	Variance
Revenue resource limit (excluding annually managed expenditure)	34,255	35,084	35,083	1
Capital resource limit	25,315	20,753	20,753	-
Cash requirement	51,989	52,335	52,335	-

The Board achieved all three financial targets for the year. This was achieved through brokerage agreed with Scottish Government Health Directorate to cover costs above budget. Costs of accelerated depreciation on hospital buildings of £9.6 million for the year were accounted for as annually managed expenditure.

While the final outturn is not significantly different from the position forecast at the beginning of the financial year, the table below summarises a number of areas where individual variances occurred and were managed during the year.

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

Management prepared a reconciliation of key movements during the year and after the year end during the preparation of the financial statements.

Movement	£'000
Financial plan forecast outturn	-
Overtime in ward nursing	556
Rates rebate receivable	(183)
<i>Agenda for Change</i> costs above budget	672
Brokerage from Scottish Government Health Directorate	(295)
Board contingency not required	(200)
Risk management of developments	(350)
Other movements	(199)
31 March SGHD return/draft financial statements	1

The majority of the costs above budget were absorbed through management of other costs though £295,000 in brokerage was required from Scottish Government Health Directorate to balance the outturn.

Financial management (continued)

Financial management and budgetary control

Financial management and budgetary control in the medium term is ensured through the five year financial plan which is linked to the local delivery plan ("LDP"). This is updated on an annual basis following a workshop with management; the last update was in February 2009. Annual financial plans are produced from the five year plan and these are subject to mid-year review, around November, which ensures that they remain accurate and appropriate for the Board. Budget holders are identified and have responsibility for their area, but overall budget monitoring is the responsibility of the finance director. Each budget holder also has responsibility the authorisation of recruitment and non-pay expenditure for their cost-centres.

The board considers itself to be very financially minded and actively challenges information provided in financial reports. Updated reports are reported on and reviewed at each of the bi-monthly board meetings. Close monitoring of performance against the financial plan during 2008-09 resulted in timely identification of cost over-runs and the requirement for brokerage.

Efficiency savings

The Board achieved overall savings of £1.2 million against an internal target of £1.4 million. The main areas of savings were from changes to the ward model (as a result of reducing nursing staff numbers with reducing patient numbers), responsible medical officer recharges and clinical staff savings and reductions in supplies (again from reducing patient numbers). The efficient government target of 2% was over-achieved by £84,000 in the year.

Financial planning

The 2009-10 financial plan forecasts a cumulative outturn of £35.1 million; being in balance with the revenue resource limit for the year. Management believes that the first priority in the financial plan is to achieve a recurring balance, i.e. to ensure that non-recurring expenditure is supported by non-recurring income and efficiencies. The 2009-10 budget has been prepared based on the estimated 2008-09 outturn, adjusted for proposed efficiency savings, activity projections, estimated pay awards and price increases. Included in the financial plan is capital expenditure in relation to the building of the new hospital. As in the 2008-09 plan, there is a significant level (£7.3 million) of annually managed expenditure included in the 2009-10 plan to account for the accelerated depreciation.

The 2% efficiency target from the efficient government initiative is anticipated to be met in the next financial year by the service changes driven by the hospital redevelopment and is detailed in the related full business case. This forecasts savings of £1.3 million in 2009-10, of which £1.0 million is from the agreed workforce plan.

Achievement of the financial plan in 2009-10 will be challenging to due to the key risks identified by management:

Financial plan – key risks

- Service and workforce changes do not deliver required savings (high risk – up to £280,000)
- Assessed value of redeveloped hospital is less than capitalised value leading to impairment which is unfunded (high risk - not quantifiable)
- Delays on construction programme create penalties, additional contract costs or delays in service change (medium risk - not quantifiable)
- Inflation on utilities is higher than budgeted (medium risk – zero)
- Cost of *Agenda for Change* are higher than budget (medium risk – up to £75,000)

Source: *The State Hospitals Board (May 2009)*

Workforce management

The annual workforce plan is an integral part of the local delivery plan and centres on the range and level of services which is to be provided as part of the approved full business case ("FBC"). The workforce plan is supported by a development plan, corporate training plan and directorate training plans. As part of the FBC, management developed a vision for the workforce to support the hospital development and realisation of this is driven through the workforce plan. The plan includes improvements to the staff/patient ratio which are already having an impact on the hospital.

Agenda for Change

The staff governance committee has continued to monitor the progress of the Board's arrangements for *Agenda for Change*. At the year end, 700 employees had been assimilated with only 37 still to be assimilated. The Board is currently aiming for all employees to be assimilated by June 2009 and for 100% of employees covered by *Agenda for Change* to have a knowledge and skills framework personal development plan and review in place by March 2010.

Staff governance

Staff governance is the third component of governance, combining with financial and clinical governance to complete the governance framework within which Scottish NHS boards are required to operate. The performance and accountability framework for NHSScotland will ensure that boards are equally accountable for how they behave as employers as well as their existing accountability for finance and clinical matters. Boards are expected to demonstrate that they are exemplar employers. The staff governance standard sets out the minimum standard that each NHS Scotland employer must continuously achieve in their management of staff. Implicit in the standard is that all legal obligations are met and that all policies and agreements are fully implemented.

In April 2009 we reviewed and reported that:

- the action plan did not comply with Audit Scotland's best practice for action plan points or SMART criteria;
- eight of the ten action points had been directly carried forward from the 2008-09 action plan because they were not fully implemented; and
- management did not provide the draft self-assessment audit tool for audit at the time of our agreed fieldwork.

We noted that the Board has a timetable for completion of the staff governance action plan and self-assessment, but preparation of the 2009-10 action plan was limited to human resources staff, with the exception of two workforce representatives on the staff governance committee.

We did not identify any areas of good practice in the Board's arrangements, but summarised elements of good practice identified elsewhere, which we would encourage management to consider in future years.

Management noted that 2008-09 has been an unusual year with significant issues which have required resource to address. Management have dealt with these issues and believe the Board is better placed moving into 2009-10 to address the matters we have raised in relation to staff governance arrangements.

Governance and accountability

The statement of internal control does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding of the Board.

Internal audit completed their agreed plan for the year and concluded that their work “did not identify any critical control weaknesses that we consider to be pervasive in their effects on the system of internal control”.

The majority of key financial controls are designed appropriately and operating as intended.

Arrangements to participate in the NFI are appropriate and are operating effectively. All payroll data matches identified by the NFI have been cleared.

The Board has an agreed improvement plan for clinical governance and risk management which sets out the improvements required in each of the core areas, which are hoped to be evidenced in a peer review in December 2009.

The Board recognises the importance of effective partnership working with geographical NHS Boards and external agencies.

The Board notes all Audit Scotland reports and management self-assess local arrangements where applicable to services and healthcare activities.

Recommendations

We did not identify any significant recommendations for development in governance and accountability arrangements

Corporate governance arrangements

Introduction

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

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

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

Governance framework

The board has four sub-committees: clinical governance, audit, staff governance and remuneration (sub-committee of staff governance). Each sub-committee has delegated authority as detailed in annually reviewed terms of reference which are then incorporated into standing orders for each. There were no changes in the board membership in the year which consists of five executive and six non-executive directors.

There is also an operational risk and governance committee in place composed of the senior management team and members of staff. This committee is responsible for incident review, actioning points from the risk register and reporting to the audit committee.

Internal audit

Internal audit delivered its plan for the year in full and we relied on work over key financial controls and the transfer of data to from Integra to the Cedar system. We note that internal audit raised four 'housekeeping issues' in their report on key financial controls. Three of those were identified as low risk and one as medium risk.

On 18 June 2009, the audit committee received internal audit's finalised annual report, which concluded that their work *"did not identify any critical control weaknesses that we consider to be pervasive in their effects on the system of internal control"*.

Internal controls

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, with the exception of some isolated findings in the operation of controls over payroll and BACS transactions, controls are designed appropriately and operating effectively.

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

Prevention and detection of fraud and irregularity

The role of fraud liaison officer for 2008-09 was undertaken by one of the deputy directors of finance. Following his departure in May 2009 this role has been taken on by the director of finance. We have confirmed during our audit that there were no significant frauds identified during the year resulting in a loss to the Board. A number of minor issues were identified and appropriately actioned in the year.

National Fraud Initiative (“NFI”)

Health bodies took part in the 2008-09 NFI exercise, with payroll information remaining the main dataset. Creditors’ payment history and standing data was added to the 2008-09 exercise for health bodies as a ‘risk-based’ dataset.

The Board identified that the original dataset received, consisting of 24 matches, was erroneous and the data was subsequently corrected and revised to 12 matches. These matches were investigated and all have now been cleared. We tested a sample of resolved matches and concluded that satisfactory evidence was available to support all matches noted as resolved on the NFI system.

In the 2007-08, we noted a number of recommendation in relation to the systems and controls in place specifically to reduce the risk of fraud and we noted in our interim report that these have been actioned in the current year.

A summary of the Board’s activity in the year is shown below.

	Total matches	Number investigated	Volume of fraud identified	Value of fraud identified
2007	35	35	-	-
2009 ¹	12	12	-	-

¹ As at 14 May 2009

Patient safety and clinical governance; partnership working

Patient safety and clinical governance

The UK safer patient initiative is not directly applicable, as such, to the Board given the nature of patient services at the hospital. However, management has developed its own initiative based on the safer patient initiative, where applicable, but with the inclusion of other specific matters relevant to the hospital. In August 2008 the initiative developed by the Board was shared with national clinical leads for the patient safety and quality project, who indicated that the Board had made an impressive commitment to improving patient safety, despite not being included within the national project. They also indicated that they are keen to be involved with the initiative implemented by the Board and wish to review progress, as the forensic mental health safer patient initiative is due to be developed later in 2009.

Following the launch of the Scottish patient safety programme in 2007, management undertook a relevance exercise in April 2008 through the Board's patient safety steering group which reported its findings to the risk and governance committee. This group has met during the year to identify current control measures for key areas in patient safety, linking, where relevant, to key performance indicators and local delivery plan targets.

The Board has achieved all national HEAT targets and the majority of locally set targets, although it is currently still behind sickness absence targets (actual for year of 6% against the target of 4%). This is currently among the highest rates in Scotland and management are taking steps to reduce the level of days lost to sickness.

Partnership working

Due to the nature of its activities, the Board does not participate in any community health partnerships, but requires effective partnership working with geographical NHS boards and external agencies to ensure management of patient flow.

The Board continues to liaise with the admission and discharge organisations (NHS Boards in Scotland and Northern Ireland, local authorities and the Scottish Prison Service etc) through the Forensic Mental Health Network. There is also a service level agreement with South Lanarkshire Council for the provision of social work services.

NHS regional planning links are led by the chief executive, with other professional relationships in place to support best practice. Directors and heads of service have links and regular liaison with similar English hospitals to share best practice.

The Board ensures that there is close liaison with the Risk Management Authority on the development and implementation of standards, policies and procedures.

Management has incorporated strict policies and procedures for the sharing of information with its partners, which are subject to continuous monitoring and review.

Audit Scotland national reports

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

Management has established procedures to consider individual reports and demonstrated good practice by completing a local self-assessment against the three reports applicable to the Board considered during our work. The reports are then assigned responsibility and are forwarded to the appropriate person or committee.

We submitted short returns to Audit Scotland in February, and a second is due in July 2009, on the Board's responses and have summarised these below.

Report topic (issue date)	Discussed by a committee	Noted by a committee	Self-assessment performed	Local action plan prepared	Plans to feed back to a committee	Frequency of feedback
Major capital projects (June 2008)	✓	✓	✓	✗	✗	n/a
Asset management in the NHS (January 2009)	✓	✓	✓	✗	✗	n/a
Managing the use of medicines in hospital (April 2009)	✓	✓	✓	✗	✗	n/a

Performance management

The 2008-09 local delivery plan identified 36 key targets for they year. Procedures are in place to monitor these and regular reports are made to the Board.

The majority of these were fully or partially met in 2008-09.

Recommendations

We did not identify any significant recommendations for development in performance management arrangements.

Performance management arrangements

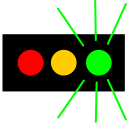
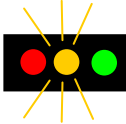
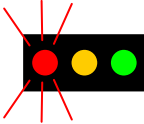
The local delivery plan, which is submitted to and approved by the Scottish Government Health Directorate includes a number of targets, which are set annually. This includes national HEAT targets, where relevant to the Board, and also a number of local financial targets (including efficient government savings). The director of finance monitors the performance against these targets throughout the year and produces regular reports on performance.

An annual report was also produced at the end of the year and this was reviewed at the April 2009 board meeting.

Performance management

Performance against targets in 2008-09

The 2008-09 local delivery plan identified 36 key targets for the year, including local and national targets, and the performance against these is detailed in the table below. It should be noted that two of the targets are not included below as the target refers to 2009-10 and two have not been included as there were no statistics available at the time of our audit.

Progress against targets		
<p>Fully achieved 21 targets (66%)</p> 	<p>Partially achieved 7 targets (22%)</p> 	<p>Not achieved 4 targets (12%)</p> 

Key targets not achieved related to the following:

- the percentage of patients who are overweight or obese was above the local targets (there is no national target);
- sickness absence rates for the Board are among the highest of Scottish NHS Boards and are above the national target of 4%; and
- the target taken to fill posts was above the local target of 8 weeks (target to be revised).

Public performance reporting

The Board publishes all performance reports and annual reports of specialised committees on its website which is available for the public to access. In addition, the minutes and papers of all Board meetings available to the public on the internet. The Board remains committed to ensuring that external stakeholders are aware of updates to the Board's activities.

Stakeholder engagement and consultation

Management's commitment to stakeholder engagement includes consideration of current patients' needs in planning services. During the year this included a patient survey, the results of which were used to inform aspects of the Board's performance and operational arrangements.

Appendix – action plan

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Board or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	We strongly encourage management, working with the Scottish Government Health Department and other NHS boards, to progress resolution of equal pay so that there is clarity over the Board's financial position. <i>(Grade one)</i>	Agreed. Liaison will continue with Scottish Government Health Directorate to ensure that liabilities can be calculated appropriately, when quantifiable.	Director of finance 31 March 2010
2	There was a significant level of fixed assets additions at the Board in the year, particularly as a result of the hospital redevelopment. During our work we noted that management had difficulty in providing one detailed listing of fixed asset additions and that several schedules were required to reconcile to the balance in the financial statements. Management should ensure that their systems in place are capable of providing detailed analysis of fixed assets to ensure the reliability of the information in the financial statements. <i>(Grade two)</i>	The backup provided for fixed assets additions was in-line with prior years (in which no issues were noted). We recognise that this information is unwieldy due to the different systems in use. As we will be using the CARS system for 2009-10, we will endeavour to supply the information in a more simple way. Action by head of finance for 2009-10 accounts	Head of finance March 2010