

NHS Grampian

**Report on the 2009/10 Audit to the Board and the Auditor
General for Scotland**

July 2010



 **AUDIT SCOTLAND**



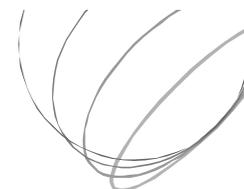
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Key Messages

Introduction

In 2009/10 we looked at the key strategic and financial risks being faced by NHS Grampian. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of NHS Grampian for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

The Board carried forward a £6.486 million surplus from 2008/09 before taking account of adjustments arising from the implementation of International Financial Reporting Standards (IFRS). As at 31 March 2010 the Board reported a cumulative surplus of £0.041 million.

The Board's financial statements include significant provisions, particularly in respect of pensions and clinical and medical negligence claims. However, they do not reflect any potential liability for Equal Pay claims as there is a lack of information to enable quantification of the liability. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any under-estimate of costs in 2009/10 could have a significant impact in future years

In the medium to longer term the Board faces a number of challenges to maintaining its financial position. These include the requirement to meet the Government's savings targets, the cost pressures in respect of prescribing growth, capital charges, pay modernisation and utility costs, and the uncertainty over the level of funding uplifts. The Board had an underlying recurring deficit of £1.09 million in 2009/10 which was offset by a non recurring surplus of £1.13 million. The Board has forecast a recurring deficit of £3.74 million in 2010/11. Non-recurring financial resources of £3.74 million have been identified to offset the deficit and achieve financial balance.



Partnership working

The Board has established good partnership working arrangements with the three Community Health Partnerships (CHPs) particularly in relation to accountability and budget responsibility matters, and with the redesign and delivery of pathways of care. NHS Grampian also works collaboratively with NHS Orkney and NHS Shetland in both clinical and non clinical areas.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall, the corporate governance and control arrangements for NHS Grampian operated satisfactorily during the year, as reflected in the Statement on Internal Control. We also examined the key financial systems underpinning the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

NHS Grampian has a strong performance management culture with overall scrutiny of performance undertaken by the Performance Governance Committee. The board has adopted the use of the 'Citistat' Methodology which is known as 'Healthstat' in NHS Grampian.

We carried out a best value review of people management arrangements at NHS Grampian during the year, using a best value toolkit. This concluded that the Board were predominantly at the "basic" practices level in this area.

The Board demonstrated good performance against a number of the HEAT targets but there is still some way to go in some areas where trajectories are not being achieved particularly in respect of urgent cancer referrals. Achieving these will require a significant investment of resources by the Board.

Looking forward

The final part of our report notes some key risk areas for NHS Grampian going forward. There are significant challenges around future funding, completion of the capital programme, the achievement of savings targets and maintaining effective partnership working with Local Authorities. National issues around Equal Pay claims may also provide a challenge in future years.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

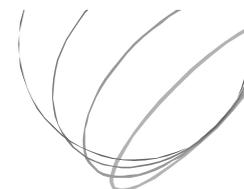


Introduction

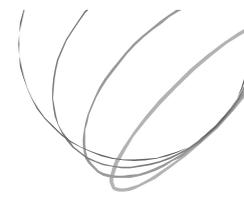
1. This report summarises the findings from our 2009/10 audit of NHS Grampian. The scope of the audit was set out in our Audit Plan, in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 3 March 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. Best value duties apply across the public sector and, in the health service, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of NHS Grampian's arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of NHS Grampian, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of NHS Grampian during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

8. In this section we summarise key outcomes from our audit of NHS Grampian's financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources. Also, the Board's 2009/10 financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) for the first time.

Our responsibilities

9. We audit the financial statements 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
 - the consistency of the information which comprises the management commentary with the financial statements
 - the regularity of the expenditure and receipts.
10. We also review the Statement on Internal Control 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
 - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of NHS Grampian for 2009/10.
12. As agreed, the unaudited accounts were provided to us on 6 May 2010 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS Grampian staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 25 June 2010 as outlined in our Annual Audit Plan.

Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 25 June 2010 the main issues arising from our audit of the financial statements. The key issues reported were as follows.



14. **Equal Pay Claims** – As at 31 March 2010, NHS bodies had received some 11,000 claims and these had been referred for the attention of the NHS Scotland Central Legal Office. NHS Grampian currently has 155 claims outstanding. It is possible that these claims represent a current liability for NHS boards generally. As with a number of other NHS boards, an un-quantified contingent liability has been included in NHS Grampian's accounts for equal pay. Further details on this issue are included at paragraphs 16 to 19 below.

Risk area 1

15. **Pension provisions** – The current information received from the Scottish Public Pensions Agency (SPPA) is considered by the Board to be insufficiently detailed and consequently the provision is based on best estimates. This is a recurring issue that affects all NHS Boards. The Board provided us with formal assurances, in a letter of representation, that the provision represents a reasonable estimate of the liability for pensions.

Equal Pay Claims

16. The National Health Service in Scotland has received in excess of 11,000 claims for equal pay and NHS Grampian has currently 155 claims outstanding. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.
17. Developments over the past year have slowed the progress of claims and led to a reduction in the number of claims going forward. The CLO have stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The NHS Scotland Central Legal Office and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.
18. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2009/10. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an un-quantified contingent liability remains appropriate for the 2009/10 financial statements of affected NHS Boards. Given the developments during the year and the comprehensive disclosure within the financial statements, auditors agreed that the emphasis of matter paragraph included within the 2008/9 audit opinion was not required for 2009/10.
19. We continue to strongly encourage NHS Grampian, working with the Scottish Government Health Directorates, the CLO and other NHS boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.



Regularity

20. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

21. As announced by the Chancellor in the 2008 Budget report on 12 March 2008, Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. As a prerequisite to this health boards were required to prepare shadow IFRS based accounts for 2008/09 to provide comparative figures for the 2009/10 IFRS based accounts. This exercise progressed well and provided a solid base for compiling the 2009/10 accounts.



Use of Resources

22. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of NHS Grampian's:

- financial position
- management of people.

The Board's financial position

Outturn 2009/10

23. NHS Grampian is required to work within the resource limits and cash requirement set by the Scottish Government. The Board's performance against these targets is shown in Table 1.

Table 1

2009/10 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource Limit	784.03	783.99	0.04
Capital Resource Limit	55.79	55.79	-
Cash Requirement	849.00	848.77	0.23

24. The Board has achieved a cumulative surplus of £0.041 million. The Board carried forward an adjusted surplus of £6.48 million from 2008/09. Table 2 below shows how the current year's surplus of £0.041 million was achieved through a combination of recurring and non-recurring funding. The Board had an underlying recurring deficit of £1.09 million in 2009/10 which was offset by a non recurring surplus of £1.13 million.



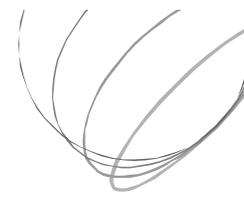
Table 2
Funding Position 2009/10

	£ Million	£ Million
Recurring income	907.83	
Recurring expenditure	933.34	
Recurring savings	24.42	
Underlying recurring surplus/(deficit)		(1.09)
Non-recurring income	24.00	
Non-recurring expenditure	24.30	
Non recurring savings	1.43	
Non-recurring surplus/(deficit)		1.13
Financial surplus/(deficit)		0.04
Underlying recurring surplus/(deficit) as a percentage of recurring income		(0.12%)

Financial sustainability and the 2010/11 budget

25. There were tighter financial settlements for health boards in 2009/10 with a general uplift of 3.15% which was equivalent to the previous year but considerably down on the 6% in previous years. This downward trend has continued in 2010/11 as the SGHD has confirmed a general funding uplift of 2.15%. Also, with effect from April 2010 the SGHD confirmed a supplementary uplift of 0.27% giving an overall increase of 2.42% for NHS Grampian in 2010/11. Current SGHD guidance indicates that funding will continue to grow at 1%. This will have a significant impact on long term financial planning and the control of pay and non pay costs.

26. In 2009/10 the Board's cost savings plan was central to the Board achieving financial balance. The Board achieved its cost savings target of £26.3m. The Board's 2010/11 cost savings plan is again central to it achieving a break-even financial position in 2010/11. The plan aims to deliver £34m of recurring cost savings in 2010/11 which is equivalent to almost 5% of its Revenue Resource Limit. The Board had difficulty agreeing with the SGHD a Five Year Financial Plan to support its Local Delivery Plan. However, the development of the Efficiency & Productivity Programme Management Office helped managers to develop robust cost reductions schemes that should be deliverable in the 2010/11 financial year and acceptable to the SGHD, although not yet formally agreed. This represents a major challenge for the Board particularly since this will be the third year in succession in which the Board has been required to achieve a significant cost savings target in order to secure a balanced financial position. This is against a background of likely significant reductions in public sector spending by both the UK and Scottish Governments.



27. Pay costs account for approximately 50% of all Board expenditure and therefore have an important bearing on the Board's financial position. During 2009/10 the Board completed the process of reviewing appeals in respect of Agenda for Change (AfC) assimilations. The additional recurring costs of those appeals that were upheld were closely aligned to the additional funding provision set aside by the Board. A further key challenge going forward is any potential liability for Equal Pay claims. As yet as there is a lack of information available to the Board to enable quantification of this liability.

Risk area 2

28. NHS Grampian's Capital programme is continuing to progress with the commencement of work on the new Emergency Care Centre. However, although the full planned level of expenditure (£56.2 million) was achieved in 2009/10, 40% of this expenditure was recorded in March. If this pattern continues, this poses a risk that in future years they will fail to meet their planned programme. The Board will face significant challenges in managing the £70.5m allocated in the capital plan for 2010/11.

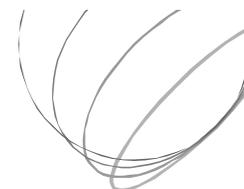
29. NHS Grampian has been instructed by SGHD to reduce their capital investment plans by 20% for each of the financial years 2010/11, 2011/12 and 2012/13. Thereafter allocations will be capped at the 2012/13 level for each of 2013/14 and 2014/15 financial years. This will result in NHS Grampian having to reduce its original capital plans by around £100m. While this will not impact on the major capital projects which are currently under way the funding available towards the elimination of backlog of maintenance is restricted to £25m over the next five years which will be targeted at high and very high risks in facilities that are regarded as having a strategic purpose.

30. Primary care premises have mainly been funded from the Board's revenue resources. Changes in accounting rules under IFRS have meant that many of the leases already entered into will now be considered as finance leases which require to be funded from capital. This may require a further £50m of capital funding to be allocated for current priorities over the next five years.

31. NHS Grampian, in conjunction with external consultants, has developed a revised methodology for prioritising asset investment. This has been utilised in developing the capital plan for 2010/2015 which will provide a more rigorous approach to asset investment.

Risk area 3

32. In the medium to longer term the Board faces a number of challenges to maintaining its financial position. These include the requirement to develop comprehensive cost savings plans to achieve recurring savings, the cost pressures in respect of pay increases and its capital programme and the uncertainty over the level of uplifts. The public sector as a whole is facing a difficult time ahead as emphasised in the Audit Scotland's report '*Scotland's public finances: preparing for the future*' (February 2010) which is considered in more detail below.



Extract from Auditor General's report *Scotland's public finances*

The public sector is coming under the greatest financial pressure since devolution.

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

In the current economic climate difficult decisions will have to be made about priority spending programmes.

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

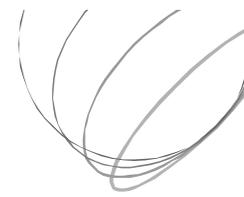
People management

33. Audit Scotland is developing a range of audit toolkits to cover key best value principles. These are being developed for use by auditors although they are also being made available to public bodies themselves for reference. In 2009/10, continuing our focus on the use of resources, we applied the best value toolkit on People Management. This exercise was part of our developing approach to the audit of best value which involves the cumulative development of a picture of NHS Bodies' best value activities over a period of time, setting it in the context of identified best practice.



34. The People Management toolkit covered a number of specific areas: policies and structures supporting effective people management; integration of workforce planning with strategic and financial planning processes; managing and developing the performance of staff, and communication and involvement of staff.
35. Our overall conclusion was that NHS Grampian is predominantly at the “basic practice” level in terms of people management. There were some areas where newly implemented policies indicated that they would soon achieve “better practices” thus providing a good platform to build on going forward.
36. NHS Grampian is carrying out a fundamental review of its workforce and future requirements entitled “Safe Affordable Workforce”. Its remit is to consider the shape of future service provision, the skills required to deliver those services and the affordability of skill mix structures. The process is being piloted on a number of grades of senior staff with a view to subsequent roll out over the organisation. We will monitor the board’s progress in this area in the coming year.
37. Also, as with other health boards in Scotland, Grampian faces a major challenge in achieving the national sickness absence target of 4%. The current sickness absence rate for the Board is 4.6% which although above target is an improvement on last year when the rate was 5.1%. The Board is continuing to take action to reduce sickness absence through its Attendance Management Policy.

Risk area 4



Governance and Accountability

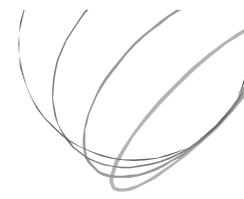
38. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our main findings arising from our review of NHS Grampian's arrangements.
39. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

40. This year we reviewed:
 - internal audit (paragraph 56)
 - key systems of internal control (paragraphs 51 to 53)
 - arrangements for the prevention and detection of fraud and irregularity (paragraphs 57 to 59)
 - commitment to the National Fraud Initiative (paragraphs 60 to 66).
41. Our overall conclusion is that governance arrangements within NHS Grampian are sound and have operated through 2009/10.

Patient safety and clinical governance

42. The Board continues to work with NHS Quality Improvement Scotland (NHS QIS) to support the implementation of the clinical governance and risk management standards to ensure that clinical governance principles are embedded in local practice. The Board completed and submitted a self – assessment performance prior to a NHS QIS visit in July 2009. The findings from the NHS QIS visit were reported in November 2009. The report highlighted that the Board had made good progress in all areas since the last review in 2006 and has now achieved an overall score of 10 out of a possible 12, over the three clinical governance and risk management standards, exceeding its target of 8.



43. The NHS QIS report identified that NHS Grampian had a number of strengths:
- Robust joint working arrangements with partner agencies.
 - Comprehensive risk management structures embedded well at both a strategic and operational level throughout the Board.
 - Effective emergency planning arrangements which have been tested and evaluated by a range of real life emergencies.
 - An extensive range of clinical effectiveness and quality improvement and access, referral, treatment and discharge activity taking place across the organisation.
 - Mature arrangements for clinical governance including strong clinical engagement from community health partnerships and sectors.
 - Mature arrangements for performance management including cross system performance.
44. The Scottish Patient Safety Programme (SPSP) was launched in 2007 by the Scottish Patient Safety Alliance, which brings together the Scottish Government, NHSQIS and NHS boards. The main aim of the programme is to reduce mortality by 15% and adverse events by 30%. NHS Grampian has a Patient Safety Strategy and is committed through its Health Plan to achieving the aims of the SPSP.
45. Healthcare Associated Infection rates for both Staphylococcus Aureus Bacteraemia (SAB) and Clostridium Difficile infection (CDI) have shown improvement over the course of the year. Grampian is required to have a 35% reduction in SAB by March 2010. Grampian SAB rates are the fifth lowest in Scotland for both Meticillin Resistant and Meticillin Sensitive strains. However, although there is a downward trend in SAB rates for each of the quarters for 2009, Grampian is unlikely to meet the SAB HEAT target. Clostridium Difficile infections are required to be reduced by 30% in over 65's by March 2011. Infection levels have fallen significantly during the second half of 2009 with a reduction from an incidence rate of 1.67 in the first quarter of 2009 to a rate of 0.71 in the fourth quarter. The Board is therefore on trajectory for achieving this target.
46. A visit in October 2009 to Aberdeen Royal Infirmary by the Healthcare Environment Inspectorate resulted in the development of an action plan by NHS Grampian to tackle issues identified. Follow up visits by HEI in November and February showed considerable improvement had been achieved.

Risk area 5



Partnership Working

47. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. The Board has undertaken significant work in partnership with local authorities in establishing two Community Health Partnerships [CHPs] and a Community Health and Social Care Partnership (CHSCP) to provide care and public health services in a local setting to meet the needs of the local population. They have continued to work in partnership with the Acute Sector, to support the redesign and delivery of pathways of care to ensure the right care is delivered at the right time and in the most appropriate place.
48. The Concordat agreed in November 2007 between the Scottish Government and local government requires each local authority to prepare a Single Outcome Agreement which identifies priority outcomes for its area, linked to the Governments 15 national outcome measures. Measures and targets through which progress with delivering these priorities can be tracked must be identified. Delivery of the agreement is the responsibility of all Community Planning Partners, who are joint signatories to the Agreement. NHS Grampian is a partner in the delivery of three Local Outcome Agreements covering Aberdeenshire, Aberdeen City and Moray.
49. Performance management arrangements differ to a degree within each CHP but have been developed in line with the Board's overall performance management framework as well as that of the individual local authorities. Each CHP has a performance scorecard which is used for performance review purposes with direct links to delivery of NHS Grampian's strategic objectives. CHP management participate fully in NHS Grampian Operational Management Team and Cross System Performance Review meetings which ensure progress in line with plans and targets.
50. NHS Grampian also works in collaboration with NHS Orkney and NHS Shetland in both clinical and non clinical service areas. Partnership agreements are in place for short term and longer term programmes and are overseen by the Partnership steering group involving the three Board chief executives.

Systems of internal control

51. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10 PricewaterhouseCoopers, the Board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant weaknesses that required specific mention in the Statement on Internal Control.



52. As part of our audit we reviewed the high level controls in a number of NHS Grampian's systems that impact on the financial statements. This audit work covered a number of areas including payroll, procurement, trade receivables and general ledger. Our overall conclusion was that NHS Grampian has adequate systems of internal control in place. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.
53. In addition we placed formal reliance on aspects of internal audit's systems work in terms of International Standard on Auditing 610 (*Considering the Work of Internal Audit*) to avoid duplication of effort. In particular we relied on aspects of internal audit's work on Key Financial Processes and IT General controls. In addition, we placed formal reliance on internal audit's review of Board members' gifts, travel expenses, hospitality and conflicts of interest. The work of internal audit provides us with additional assurances on the adequacy of the internal control environment within NHS Grampian.

Statement on internal control

54. The Statement on Internal Control (SIC) provided by NHS Grampian's Accountable Officer reflected the main findings from both external and internal audit work. This SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.
55. The SIC drew attention to the refocusing and prioritisation of the strategic service design projects underpinning the change and innovation programme in order to address areas of financial pressure. It also highlighted the establishment of an Efficiency and Productivity Programme Management Office, (EPPMO), to lead on and oversee the development of a programme of work designed to secure significant recurring financial savings and to improve the effectiveness and efficiency across all clinical and non clinical services.

Internal Audit

56. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible. Also, as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on NHS Grampian's internal audit function. We concluded that the internal audit service operates in accordance with relevant Internal Audit Standards and has sound documentation standards and reporting procedures in place. We therefore placed reliance on their work in a number of areas during 2009/10, as we anticipated in our annual audit plan.



Prevention and detection of fraud and irregularities

57. NHS Grampian has a comprehensive range of measures in place to prevent and detect fraud including Standing Financial Instructions, a Code of Conduct for staff and policies covering 'whistleblowing' and fraud. The Board has also entered into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS).
58. The Board has also agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2009/10 these checks included verification against patient records, requesting patients to confirm treatment by letter, visits to practices and examination of patients.
59. Additionally, the Board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.

NFI in Scotland

60. During the year NHS Grampian took part in the 2008/09 National Fraud Initiative (NFI) in Scotland. The NFI in Scotland is a counter-fraud exercise led by Audit Scotland, assisted by the Audit Commission (our sister organisation in England). It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
61. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
62. As part of our local audit work we carried out a high level assessment of NHS Grampian's approach to the NFI. We concluded that the Board is proactive in preventing and detecting fraud including participation in the NFI.
63. The Audit Scotland report *The National Fraud Initiative in Scotland; making an impact*, which was published on 20 May 2010 set out the results of the 2008/09 NFI exercise. It involved 74 bodies, including councils, police forces, fire and rescue services, health boards, the Scottish Public Pension Agency and the Student Award Agency for Scotland.



64. Overall, the outcome of the 2008/09 exercise was worth £21.1 million to the public purse. The report also highlights that while the NFI has been successful, much of the information used in this exercise was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.

65. The cumulative outcome of the current and previous NFI exercises in Scotland is now around £58 million and there have been at least 80 successful prosecutions since the last NFI report in 2008. Audit Scotland will require data for the next NFI exercise in October. This is expected to be carried out under new powers currently before the Scottish Parliament. These will provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies that may be involved, and allow data matching to be used to detect other crime as well as fraud.

66. The national report *The National Fraud Initiative in Scotland; making an impact* includes a self-appraisal checklist. We recommend that officers involved in the NFI should use the checklist as part of their preparations for the NFI 2010/11.



Performance

67. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery. Additionally, it includes a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes for citizens.

Vision and strategic direction

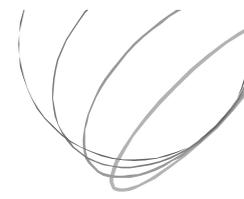
68. NHS Grampian's health plan "healthfit" outlines how the Board is going to develop its vision "***Proudly working together to deliver the best possible services for a healthier Grampian.***" The plan consists of five areas of focus based on consultation with stake holders:

- improving Health and Reducing Health Inequalities
- involving patients, public, staff and partners
- delivering safe, effective and timely care in the right place
- developing the workforce and empowering staff
- improving efficiency, productivity and sustainability - getting the best from our resources.

69. To deliver these strategic priorities NHS Grampian will focus on shifting the balance of care, moving care to where it is more appropriate, and putting more emphasis on what happens outside hospitals. Key features of this strategy are:

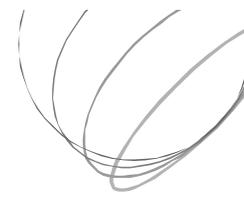
- helping people to maintain good health, and to protect against and prevent ill-health
- providing care in people's homes and in community settings, away from large specialist hospitals
- delivering more care using trained and experienced staff from across a range of professions.

70. This should have the effect of reducing the need for inpatient beds and making appointments and tests available within communities.



Managing risk

71. There are a number of key challenges and risks for the Board in delivering its plan. The Board has put in place robust systems for the identification and management of risk. The Risk Management Strategy sets out how the Board will manage risk across NHS Grampian and through the Corporate Risk Control Plan the Board can continue to identify and monitor the management of individual risks. The implementation of the DATIX risk management information is complete and all relevant staff have now been trained in its use. The challenge for the Board will be embedding a risk aware culture within the organisation for the future management of existing and emerging risks in the medium to long term.
72. The main risk areas are:
- **Securing Financial Stability** – A key challenge for the Board is maintaining financial balance and sustainability in a period of reducing funding levels and increasing cost pressures and pressure to achieve efficiency savings in excess of 2% of RRL.
 - **Service Redesign and Sustainability** – A further significant challenge that the Board faces relates to its ability to fund a sustainable level of service and implement major service developments, in particular the major capital programme underway while reconfiguring services within NHS Grampian.
 - **Working In Partnership** – The ability of the Board to work in partnership with local authorities, central government agencies and the voluntary / private sectors has been demonstrated in the various partnership structures established by the Board. For example : Community Health Partnerships (CHPs), the development of Aberdeen City Health Village and the Glassgreen Centre in Elgin. The Board also works in collaboration with NHS Orkney and NHS Shetland in both clinical and non clinical service areas. Audit Scotland is also currently carrying out a national performance audit of Community Health Partnerships across Scotland and will report on its findings in due course.
 - **Maintaining Robust Performance Reporting Frameworks** –The Board has sound performance arrangements in place but is continually striving to improve these. The NHS Quality Improvement Scotland report on clinical governance and risk management, issued in November 2009, reported that the Board had “mature arrangements for performance management including cross system performance”. The key challenge for the Board is maintaining the quality and consistency of performance data across the service and in embedding an outcome based approach to performance measurement in areas of partnership working.
 - **Workforce Planning** – Given the current economic climate and impending cuts in public expenditure there is even more scrutiny on pay and productivity levels especially within the public sector. It is important that the Board can demonstrate that its workforce plans are robust and stand up to scrutiny.



73. These areas are addressed elsewhere in this report. Each area is complex and comprises multiple issues which will require careful management to resolve. We have continued to monitor the Board's progress in each of these areas over the course of the year and have commented on this within the report.

Service Development

74. The publication of NHS Grampian's health plan for 2010-2013 represents a major redevelopment of services, shifting the balance of care from hospitals to the community. Key features of this are:
- A new Emergency Care Centre is currently being built at Foresterhill in Aberdeen. This will improve the emergency services across all of Grampian.
 - The developments at Doctor Grays Hospital in Elgin, Chalmers Hospital in Banff, Woodend Hospital in Aberdeen and the Aberdeen Health Village, including telemedicine and diagnostic testing, will allow ARI to focus on complex specialist hospital care.
 - Foresterhill Energy Centre will provide the campus with a new cutting edge technology which will meet the heating and electricity needs for the next 20 years. This will reduce energy costs by approximately £2m per year and reduce NHS Grampian's carbon output by 800 tonnes per year.
75. The Board's Capital Plan 2010/11-2012/13 noted that the capital allocations from SGHD were considerably lower than had been forecast in the 2009/10-2011/12 Capital Plan. However, SGHD has confirmed its commitment to funding the cost of these projects.
76. The Board developed a Change and Innovation Programme to support the Health Plan in 2008/09 as part of the development of a continuous service culture. This is led by the Strategic Management Team and supported by the CSI leadership group. Continuous service improvement is NHS Grampian's change methodology and all members of staff are encouraged to use the basics of the methodology in reviewing their own working practices and procedures.

Performance Overview

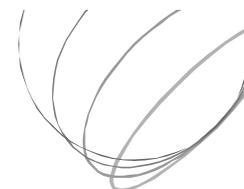
77. The Board receives regular reports on progress towards achieving waiting times and other access targets set by the Scottish Government (commonly known as HEAT targets). The Board was successful in achieving a number of very challenging targets by the end of March 2010 including those for inpatients and outpatients. Some targets, including cancer waiting times in relation to, lymphoma, colorectal and urological, and the 4 hour waiting time for accident & emergency cases were not fully achieved.



78. Waiting times have been falling over recent years as the Board has achieved successive Government targets. The current Government target is that by December 2011 the total maximum journey will be 18 weeks from referral to treatment. At the end of March 2010 NHS Grampian was below its trajectory for achieving this target. NHS Grampian had achieved the target of no outpatients waiting more than 12 weeks from GP referral to an appointment. The Board also achieved the 12 week inpatient/day case target by March 2010 for inpatient /day cases. The target of no patient waiting more than four weeks for specific diagnostic tests was missed by two patients in March 2010, but was achieved by April 2010.
79. The Board has made significant progress over the course of the year to meet the delayed discharge target. The efforts of both the Board and Council partners have virtually eliminated delayed discharges over six weeks. There is growing concern however, that local authorities may find it difficult in future to allocate sufficient funding to support patients discharging into the community, leading once again to difficulties in achieving target.
80. There is now an expectation that all public sector bodies, including the NHS, should be able to demonstrate how their activities are aligned with the Government's over-arching purpose through the National Performance Framework (2008). This introduced Single Outcome Agreements (SOAs) for local government bodies in 2008/09. In 2009/10 this was extended to the health sector through the mechanism of Community Planning Partnerships (CPPs). As a result, NHS boards are required to engage with local authorities, and other public bodies, to agree the priority outcomes and related indicators, and set out how these will support the National Outcome in SOAs.

Performance Management

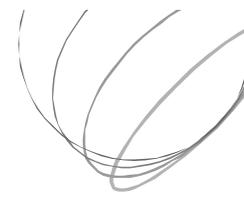
81. NHS Grampian has a sound performance management framework in place for monitoring and reporting on performance. The Board has a Performance Management Strategy which ensures that the arrangements are kept under review. The Performance Governance Committee (PGC) oversees a performance review panel which looks at the Healthstat performance reports and interrogates officers on what is being done to improve scores. The PGC also has an action plan in place to support the continued monitoring and development of dynamic performance monitoring, assessment and management arrangements across NHS Grampian.
82. The Annual Review in November 2009, chaired by the Cabinet Secretary for Health and Wellbeing, highlighted areas where specific action would be required to improve health and treatment including taking on board the results of the HEI inspection at ARI. Further areas for action included continuing progress against HEAT targets for mental health and those which support the shift in the balance of care, the reduction of reliance on non recurring expenditure savings and the delivery of all waiting/access and HEAT performance targets.



83. One of the major challenges facing all boards in Scotland is tackling health inequalities. The Board recognises this challenge and has incorporated actions within its Local Delivery Plan, service plans and performance reports to assess progress in this area.

Improving public sector efficiency

84. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
85. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the most significant since devolution – and making the required savings through efficiency will become increasingly difficult.
86. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
87. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).



Extract from Audit Scotland report *Improving public sector efficiency*

In order to improve the delivery of efficiency savings public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

88. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.

National Studies

89. Audit Scotland's Public Reporting Group undertakes a programme of national studies each year in consultation with key stakeholders. The findings and key messages of these studies are published in national reports which are publicised and widely distributed. In addition they are also available on Audit Scotland's website.
90. Current arrangements within NHS Grampian are that national reports are distributed to the Audit Committee for information and to relevant Directors and Senior Managers for consideration alongside the actions identified from local service improvement activity and incorporated as appropriate in to local service delivery plans. No formal process exists, at present, to monitor the service impact of action resulting from the recommendations or more generally the usefulness of information contained in these reports. The Board did however take part in workshops and discussions to determine Audit Scotland's forward programme of national studies, the outcome of which was reported to the Audit Committee in June. Audit Scotland's expectation is that NHS boards should consider the findings contained in national reports and identify actions to be taken locally. It is the Board's intention to review current arrangements and develop a more formal approach to the dissemination and feedback from implementation of national reports early in 2010/11. A list of the national studies published by Audit Scotland in 2009/10 is summarised in the table below:

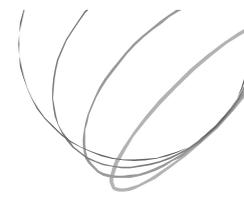


Table 3

Audit Scotland national performance reports issued in 2009/10

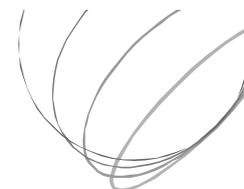
Report Title
Review of Major Capital Projects in Scotland
Asset Management in the NHS in Scotland
Drug and Alcohol Services in Scotland
Overview of the NHS in Scotland's Performance 2008/09
Managing the Use of Medicines in Hospitals – Follow-up Review
Improving Public Sector Purchasing in Scotland
Managing NHS Waiting Lists : A review of new arrangements
Review of Orthopaedic services



Looking Forward

91. NHS Grampian faces a number of challenges in 2010/11, which include:

- **Financial management and affordability** – The financial settlement in 2010/11 provides an uplift of 2.42% which may reduce in 2011/12 given the current economic situation and the impact of the recent UK Government emergency budget in June 2010. This will have a significant impact on long term financial planning and the control of pay and non pay costs. The Financial Plan for 2010/11 indicates that the Board could face an additional challenge in 2011/12 and although this has not been quantified it is likely this will require more radical options in terms of cost savings. The Board's savings targets for 2010/11 have increased to £34 million as a result of increased pay, prescribing costs, medical supplies and costs of meeting access times.
- **Efficiency, future funding and economic developments** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2008/09, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The challenge for NHS Grampian is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Service redesign and sustainability** – There are significant developments planned for the delivery of future healthcare services by the Board. The most significant are the continuing work on the new emergency Care Centre at ARI, Aberdeen Health Village and the Foresterhill Energy Centre. In the context of anticipated reductions in funding over the next few years this programme will contribute to significant pressures for the Board.
- **Equal Pay** - The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Grampian currently has 155 claims outstanding. Significant ongoing uncertainties have been identified by the CLO resulting in an un-quantified contingent liability disclosure in 2009/10. However, Board management, working with the Scottish Government Health Directorates and other NHS Boards, will require to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.



- **Partnership working** – “Better Health Better Care” emphasises the importance of Community Health Partnerships in shifting the balance of care from the acute sector to the community. Current and predicted resource pressures across all of the public sector are already having an impact and NHS Grampian are seeing an increase in delayed discharges due to a lack of suitable community care packages. It is important that all partners continue to work collaboratively for the benefit of the people of Grampian.
- **VAT increase** – The Chancellor’s emergency budget on 22 June included an increase in VAT from 17.5% to 20% from January 2011. The board is currently working out the implications of this increase to its capital plan. In addition it has been reported that the VAT increase will increase the cost of supplies across the NHS in Scotland by £26 million and NHS Grampian will bear a portion of the increase. In the short term the board is attempting to accelerate major equipment purchasing programmes to achieve the lower rate however the increase in VAT poses an additional risk to the Board’s financial position.

Risk area 6

- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government’s commitment to refreshing its Best Value Guidance for Public Bodies. NHS Grampian should continue to respond to this important initiative as it develops.

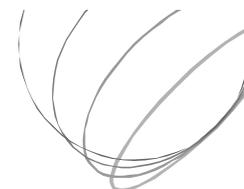
92. The Board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	NHS Grampian as with other Boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the Board's financial position.	Continue to accept advice from SGHD through the Central Legal Office. In the event of a change of status of claims received by the CLO, consider making financial provision should that be the advice received.	Director of Finance	Ongoing
2	The Board faces a wide range of financial challenges and there is a risk that it may not be able to make its savings targets in 2010/11. The longer term financial plan remains at risk of not being affordable and is a significant challenge to the Board moving forward.	<p>The Budget Steering Group (BSG) chaired by the Chief Executive has delegated authority to monitor financial progress in the current year. Monthly meetings require leading budget managers to report on performance to date, risks to meeting targets and proposals to ensure targets will be met. Budget Managers also have access to dedicated support provided by the Efficiency and Productivity Programme Management Office (EPPMO) and members of the EPPMO team provide monthly reports to the BSG on current and proposed initiatives designed to reduce costs within sectors and system wide.</p> <p>Annex 4 of the Local Delivery Plan remains unapproved by the SGHD. Work is ongoing to refine financial plans for the next four years with a particular focus on cost efficiency programmes. The BSG will seek to agree amended plans at its 24 August meeting. Thereafter, approval for a revised annex 4 will be sought from SGHD.</p>	Chief Executive/Director of Finance	End August 2010 and ongoing thereafter
3	There is a risk the Board will be unable to utilise its full capital allocation for 2010/11, thus impacting on its service redesign and its subsequent delivery	The Asset Investment Group (AIG) is chaired by the Director of Public Health and Planning and reports directly to the Strategic Management Team (SMT) which is responsible for approval of all strategic plans including capital and revenue financial plans. The AIG meets monthly to review capital plan progress including performance against investment targets. The Capital Programme Finance Group reports to AIG and consists of Planning and Finance Officers who dedicate time to reviewing progress of individual programmes and projects. Risks identified are followed up directly with project leads to ensure that risks are covered or that remedial action is identified and implemented.	Director of Public Health and Planning/Director of Finance	Ongoing



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
4	The Board may fail to achieve its 4% sickness absence rate	The Director of HR and Strategic Change has lead responsibility on behalf of the Board for the health and welfare of all staff. Robust protocols and processes are formally in place across the organisation and absence trends are monitored on a regular basis. The in-house Occupational Health Service is particularly active in supporting managers and staff in creating healthy and safe working environments and practices to help reduce incidence of absence. The service is also active in reviewing absentee progress in an effort to accelerate an effective return to work.	Director of HR and Strategic Change	Ongoing
5	The Board may not achieve its target for Healthcare Associated Infections and may not fulfil the action plan set following an inspection by HEI.	The NHSG Medical Director is personally dedicated to reducing Grampian infection rates to the lowest in Scotland. According to Health Protection Scotland's 2009 annual report, very good progress is already being made. The Infection Control Group, chaired by the Medical Director, devotes its time to extending and improving procedures that apply to all health areas throughout the region. It also investigates fully every incidence of infection arising to identify the cause and consider what lessons must be learned for the future. Reasserting the importance of the ward manager role, following earlier visits by HEI, has also allowed much tighter control over patient, staff and visitor behaviour. This is especially so of hand washing which is considered to be crucial in avoiding infection spread.	Medical Director	Ongoing
6	VAT is set to increase from 17.5% to 20% from January 2011. This will have an additional impact on the cost of supplies and the cost of the Capital projects.	The rate change will lead to additional running costs of around £400,000 in the current year and close to £2 million in 2011/12. Revenue plans are being amended to reflect this, requiring additional cost containment measures to be devised and implemented. All capital project managers are aware of the financial benefit of being invoiced for completed works and equipment prior to the rate increase coming into effect. The AIG's monitoring mechanisms will lead to maximisation of expenditure prior to January 2011 where its is sensible to do so.	Director of Public Health and Planning/Director of Finance	Immediate and ongoing