NHS Highland

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

July 2010

AUDIT SCOTLAND

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Contents

Key Messages

Introduction

In 2009/10 we looked at the key strategic and financial risks being faced by NHS Highland. We audited the financial statements and 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 Highland 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

The public sector in Scotland 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 so tight. 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 are unlikely to 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 £70k 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 disclosed a cumulative surplus of £79k.

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, pay modernisation and utility costs, and the uncertainty over the level of funding uplifts. The Board removed its reliance on non-recurring funding during 2009/10 and project that they will again be in recurrent balance during 2010/11. To achieve this NHS Highland require to deliver £14.7 million of recurring cost savings in the coming year which is equivalent to almost 3% of its Revenue Resource Limit. This clearly represents a major challenge to the Board and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

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 Highland operated satisfactorily during the year, as reflected in the Statement on Internal Control.

During 2009/10 we examined the key financial systems underpinning the organisation's control environment and concluded that the systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

NHS Highland has a well developed framework in place for monitoring and reporting performance. Comprehensive performance reports detailing performance against national and local targets are submitted to each meeting of the Improvement Committee who use Citistat principles to monitor and scrutinise the performance. The Improvement Committee in turn provide an assurance report to each Board meeting setting out agreed actions to be taken to address any areas of underperformance.

During 2009/10 the Board demonstrated good performance against a number of challenging HEAT (Health Improvement, Efficiency, Access and Treatment) targets including the requirement to reduce the number of psychiatric readmissions and the 62 day cancer referral target. It was noted however that performance against a number of other HEAT targets requires to be addressed to ensure that appropriate action is taken to facilitate the improvements required. These include the Board's current performance in relation to the targets for Outpatient Waiting Times and reducing Healthcare Associated Infections. The Board's Improvement Committee will continue to play a key role in ensuring that any underperformance against national targets is successfully addressed.

Looking forward

The final part of our report notes some key risk areas for NHS Highland going forward. These include the significant challenges around future funding and the achievement of savings targets. National issues around Equal Pay claims may also provide a challenge in future years.

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

Audit Scotland
July 2010

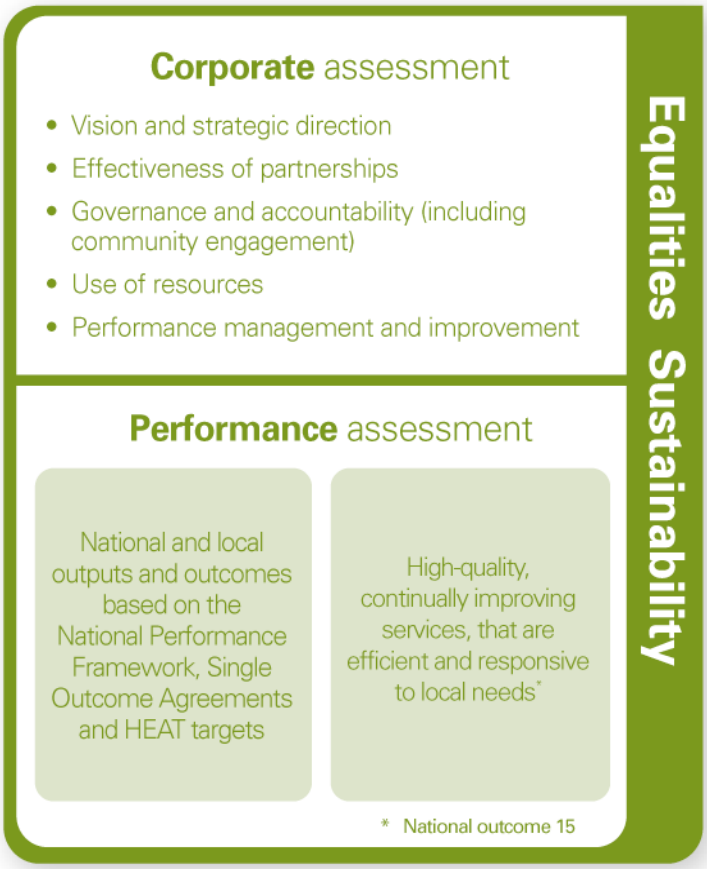
Introduction

1. This report summarises the findings from our 2009/10 audit of NHS Highland. The scope of the audit, in accordance with the Code of Audit Practice, was set out in our Audit Plan which was presented to the Audit Committee on 16 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 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 is intended to provide clearer guidance to public bodies 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 Highland'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 Highland, 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 Highland 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 Highland'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. The Board's 2009/10 financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) for the first time and the implications of these changed requirements were considered during the course of the audit.

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 Highland for 2009/10.

12. As agreed, the unaudited accounts were provided to us on 4 May 2010 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS Highland staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 29 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 29 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 in excess of 11,000 claims and these have been referred for the attention of the NHS Scotland Central Legal Office (CLO). NHS Highland currently has 211 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 unquantified contingent liability has been included in NHS Highland's accounts for equal pay. Further details on this issue are included at paragraphs 21 to 24 below.

Risk area 1

15. **Agenda for Change:** As at 31 March 2010, £1.478 million was accrued in respect of the remaining costs associated with the agenda for change process. This figure includes estimations based on NHS Highland's assumptions and refers to a range of staff posts and grades. The Board provided us with formal assurances, in a letter of representation, that the accrual, in their judgement, represents a prudent estimate of anticipated costs.

16. **Pension provisions:** NHS Highland continue to experience difficulties in obtaining timely and accurate information from the Scottish Public Pensions Authority (SPPA). The Board have therefore had to use the most recent information provided by the SPPA to calculate their required Pension and Injury Benefit Provisions as data at the 31 March 2010 was not available. The Board provided us with formal assurances, in a letter of representation, that the provision represents a reasonable estimate of this liability.

17. **Surplus Sites Agreement:** In 2000 NHS Highland agreed a property transaction connected to the New Craigs PFI. As part of this transaction there was an arrangement (known as the surplus sites agreement) concerning land at Craig Dunain Hospital which required the contractor to pay the Board the higher of, the guaranteed base price or the base price plus a fifty percent share in any development surpluses arising from the development of the fourteen individual sites.

18. During 2009/10 the fourth of these sites was sold but due to the adverse costs to the contractor of developing the site no surplus was made. As a result NHS Highland only received the guaranteed base price for the site of £601k. As the Board had expected to receive income of £1.7m for this site they therefore had to write off £1.1m of anticipated income during the year.

19. As at 31 March 2010, £6.348m of accrued income was recognised in NHS Highland's financial statements in respect of anticipated income from the remaining undeveloped sites. This amount was based on professional advice from Montagu Evans on the likely income that would be achieved for each of the sites. Due to the current uncertainty surrounding the property market we obtained formal assurances form the Board, in the letter of representation, that this amount, in their judgement, represents a prudent estimate of anticipated income.

Risk area 2

20. **Balances with Other NHSScotland Bodies:** During the course of the audit a number of differences were identified between NHS Highland's records of income and expenditure with other Scottish Boards and the records held by those Boards. The most significant difference related to an invoice for £137k from NHS Grampian. The SGHD have been made aware of these issues and accept the Board's treatment in relation to these differences. The Board will carry out further work to resolve these disputes during 2010/11.

Equal Pay Claims

21. The National Health Service in Scotland has received in excess of 11,000 claims for equal pay and NHS Highland currently has 211 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.

22. 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 claims being successful or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of these claims along with developments relating to NHS equal pay claims elsewhere that may further inform the position.

23. 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 unquantified 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 2008/09 audit opinion was not required for 2009/10.

24. We continue to strongly encourage NHS Highland, 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

25. 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)

26. As announced by the Chancellor in the 2008 Budget report on 12 March 2008, Government departments and other public sector bodies are required to report using International Financial Reporting Standards (IFRS) from 2009/10 onwards. In preparation for 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

27. 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 Highland's:

- financial position
- financial management
- management of people
- management and use of ICT.

The Board's financial position

Outturn 2009/10

28. NHS Highland 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

Financial Target	Target £ Million	Actual £ Million	Variance £ Million
Revenue Resource Limit	543.361	543.282	0.079
Capital Resource Limit	19.865	19.865	0
Cash Requirement	600.000	599.179	0.821

29. The Board carried forward an adjusted surplus of £0.070 million from 2008/09 and achieved a cumulative surplus of £0.079 million during 2009/10. NHS Highland also removed its reliance on non-recurring funding during 2009/10 as detailed in table 2 below.

Table 2

Funding Position 2009/10

	£ Million	£ Million
Recurring income	590.838	
Recurring expenditure	602.026	
Recurring savings	11.267	
Underlying recurring surplus/(deficit)		0.79
Non-recurring income	9.169	
Non-recurring expenditure	12.324	
Non recurring savings	3.155	
Non-recurring surplus/(deficit)		0
Financial surplus/(deficit)		0.1
Underlying recurring surplus/(deficit) as a percentage of recurring income		0.01%

Financial sustainability and the 2010/11 budget

30. During 2009/10 there were tight funding settlements for health boards with a general uplift of 3.15%. This was consistent with the uplift received in 2008/09 but considerably lower than the uplifts awarded for years prior to this. This downward trend has continued in 2010/11 as the SGHD has confirmed a general funding uplift of 2.15%. Furthermore, the SGHD have indicated that future funding uplifts may be around 1%. This would have a significant impact on long term financial planning and the control of pay and non pay costs.

31. In 2009/10 the Board's cost savings plan was crucial to the Board achieving financial balance. During the year the Board achieved cost savings of £14.4 million with £11.3 million being achieved on a recurring basis and £3.1 million being non-recurring savings. The Board's 2010/11 cost savings plan will again be central to achieving a break-even financial position in 2010/11. The plan aims to deliver £14.7 million of recurring cost savings in 2010/11 which is equivalent to almost 3% of its Revenue Resource Limit. This represents a major challenge to the Board and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

Risk area 3

32. The Board continues to face significant cost pressures relating to the rate of growth in prescribing costs and the anticipated increases in workforce costs and supplies during 2010/11. All additional expenditure will require to be met from the Board's existing resource and as a result any significant fluctuations in these costs will present a major challenge to NHS Highland achieving financial balance for the coming year.

Risk area 4

33. The Board has invested substantially in recent years to improve performance against the nationally determined HEAT (Health Improvement, Efficiency, Access, Treatment) targets. There is a risk therefore that the tighter funding settlement for 2010/11 may have an adverse impact on NHS Highland's ability to maintain this performance.

Risk area 5

34. 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 prescribing growth, pay increases and utility costs, and the uncertainty over the level of uplifts. The public sector as a whole is facing a difficult time ahead as emphasised in the Auditor General for Scotland's report *'Scotland's public finances: preparing for the future'* 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

35. Audit Scotland is developing a range of audit toolkits to cover key best value principles. These are being developed for use by auditors and 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.

36. The People Management toolkit covered the following key areas:

- Policies and structures supporting effective people management
- Integrating workforce planning with strategic and financial planning processes
- Managing and developing the performance of staff
- Communication and involvement with staff.

37. A number of areas of good practice were identified during our audit work including:

- Workforce reports are regularly produced to provide information on a range of people management measures including: level of vacancies, staff turnover, staff training and sickness trends.
- Workforce reports considered by Board's Staff Governance Committee and made available to staff via intranet.
- Participation in a national benchmarking exercise run by Chartered Institute of Public Finance and Accountancy (CIPFA) to compare performance against similar sized public sector bodies.
- Provision of HR support to NHS Western Isles during 2008/09 and 2009/10 as part of the partnership arrangements instigated by the Scottish Government.
- Range of non-cash incentives are offered to staff including: family friendly leave, access to occupational health services, and the opportunity for flexible and home working where appropriate.
- Consideration of high profile staff issues by senior management team at the Improvement Committee and full Board meetings.

38. We also identified several areas where there is scope for the Board to strengthen the arrangements in place. These included:

- Lack of dedicated electronic HR system to produce timely and accurate workforce information which interfaces directly with Board's payroll system.
- Communication between senior management and staff.
- Recruitment and retention of specialist staff.
- Procedures in place for staff to report concerns or grievances.

39. Our overall conclusion was that NHS Highland's People Management arrangements are generally at the "Better Practice" level. This indicates that the Board is committed to the efficient use of its human resources but further progress is required in a number of key areas to improve policies and practices.

40. The summary report on the application of the People Management best value toolkit, along with the completed People Management toolkit itself, will be issued to the Board in August.

41. As with other health boards in Scotland, NHS Highland face a major challenge in achieving the national sickness absence standard of 4%. The sickness absence rate for the Board as at the 31 March 2010 was 4.8% which represents a slight improvement on the corresponding rate for the previous year of 4.9%. The Board continue to take action to address sickness absence and improve performance against the standard.

Risk area 6

Management and use of ICT

42. As part of the 2009/10 audit we have reviewed the following aspects of the Board's management and use of information and communication technology (ICT).

ICT data handling review- follow-up report

43. Our follow up review identified that membership of the Information Governance Committee has been increased and now includes representatives from across the organisation, the data sharing partnership and the Information Commissioner's office.

44. In addition, we noted that encryption software has been deployed on laptops and USB memory devices. The project to make all mobile devices compliant to the NHS Scotland Mobile Data Protection standard continues and should conclude by July 2010.

45. Staff awareness of data handling and security continues to be given a high profile which reflects the significant role that staff play in information management and data handling. NHS Highland staff from all divisions and functions participated in a survey to assess their awareness of security issues and their role in reducing risk to the organisation. Although the survey results indicated many areas of good practice and knowledge, it also raised concerns about the level of information security awareness within the Board. We have agreed with the Head of eHealth that the outcomes from the survey will be communicated to staff and that risk areas identified will be addressed through the Information Governance Committee and the Corporate Management Team.

Computer Services Review (Business Continuity Planning) - follow-up report

46. Our audit identified that the Board has addressed the areas identified in the report and has strengthened controls in a number of areas. The eHealth governance structure has been strengthened by expanding the membership to include service user representatives from Argyll and Bute CHP. The Board's eHealth strategy has been updated and implementing the challenging plan will depend on the availability and focused utilisation of resources available, while maintaining and improving the service levels to existing services. Our current review of ICT Service Delivery will provide more information in this respect.

47. The recent adoption of a Business Continuity Management (BCM) Policy and a BCM Plan provides the Board with a good basis for the co-ordination of its response to interruptions to business activities and to continue providing services in the event of a service disruption.

Management of ICT service delivery

48. Information management is a key area given that information communications technology (ICT) underpins almost all aspects of the health system. NHS Highland continues to develop its eHealth service to support the front line service as it evolves and to remain in line with national strategic direction. In turn, the day to day front line service delivery relies increasingly on the Board's ICT infrastructure. Given the importance of eHealth service delivery we undertook a review of the service management aspect during 2009/10.

49. The audit focused on control objectives that contribute to ICT service delivery in support of users in the achievement of the organisation's goals. The aim was to identify controls and governance procedures that were already in place. A number of meetings have been held with HI&T management during the course of our audit and we are progressing with the review and will report our findings during Autumn 2010.

Governance and Accountability

50. 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 Highland's arrangements.

51. 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

52. This year we reviewed:

- internal audit (paragraph 66)
- key systems of internal control (paragraphs 62 to 64)
- aspects of ICT (paragraphs 42 to 49)
- arrangements for the prevention and detection of fraud and irregularity (paragraphs 67 to 69)
- commitment to the National Fraud Initiative (paragraphs 70 to 76).

53. Our overall conclusion is that governance and accountability arrangements within NHS Highland are sound and have operated through 2009/10.

Patient safety and clinical governance

54. 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 findings from the NHS QIS visit in March 2010 were reported in June 2010. The report highlighted that the Board had made good progress in all areas since the last review in 2007.

55. The NHS QIS report identified that NHS Highland had a number of strengths, including:

- An embedded culture of quality improvement throughout the Board, particularly in the areas of clinical governance, fitness to practice and performance management.

- Clearly devolved systems and governance arrangements at an operational level to ensure local solutions are established which are specific to local needs.

56. 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% within the hospital care environment. NHS Highland is committed to achieving the objectives of the Scottish Patient Safety Programme within the acute care setting and in order to assist in this process and ensure that robust performance data is available the Board implemented a range of measures which significantly improved data collection to ensure that the Board is able to demonstrate the improvements being made in hospital teams. The Board will continue to develop the reporting tool known as the 'clinical dashboard', which will require the involvement of eHealth at both a local and national level.

57. The Board has a Healthcare Associated Infection (HAI) Strategy, which targets high impact areas and contributes to meeting the associated HEAT targets: *to reduce all staphylococcus aureus bacteraemia (SAB) by 30% by 2010* and *to reduce C-Difficile Infections by 30% by 2011*. The Board also has a HAI team in place to work with the appointed anti-microbial pharmacist to prevent the overuse of antibiotics which can make patients more susceptible to HAIs such as MRSA and C-Difficile. As NHS Highland has a low rate of SAB infection, the Board were unable to meet the associated HEAT reduction target by March 2010. However, the most recent infection control update report to the Board in June 2010 indicated that the level of C-Difficile for NHS Highland was well below the national average.

58. The Healthcare Environment Inspectorate published a report in February 2010 following an inspection of Raigmore Hospital in December 2009. The report commended NHS Highland for its work in preventing infection, including a comprehensive infection control manual, a proactive approach to communicating HAI information to patients and the public, and a high focus on infection control training for all new staff. However, the report highlighted several areas where improvements were required including ensuring full compliance with expected national infection control arrangements and producing corporate cleaning schedules for equipment and the patient environment.

Partnership Working

59. 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 established Community Health Partnerships (CHPs) to provide care and public health services in a local setting to meet the needs of the local population. It is also the intention that CHPs will contribute to one of the key principles set out in the Scottish Government's Better Health, Better Care publication which emphasises the need for 'ensuring better, local and faster access to health care'.

60. NHS Highland's four CHPs continue to develop and face a significant challenge to demonstrate to stakeholders that they are effectively shifting the balance of care from acute settings to community based settings while delivering improved services within the set budget and timeframes. Each CHP is held to account through both their own governance committee and the Board's Improvement Committee which seek assurance that they are operating effectively and consequently improving the patient experience. We will continue to monitor progress in this area.

61. During 2009/10 the Board provided support to NHS Western Isles as part of a formal partnership arrangement that aimed to assist NHS Western Isles in strengthening their key management functions. NHS Highland will continue to provide support to NHS Western Isles during 2010/11 as set out in a service level agreement and the Board's Local Delivery Plan (LDP) for 2010/11. The agreement forms the basis for the partnership between the Boards and this will be updated annually as part of the LDP preparation process. A key aspect of the agreement is that while the partnership arrangements require NHS Highland to provide support to NHS Western Isles, accountability for performance remains with their own Board.

Systems of internal control

62. 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 Deloitte, 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.

63. As part of our audit we reviewed the high level controls in place for NHS Highland's systems that impact on the financial statements. This audit work covered a number of areas including cash income and banking, creditors, debtors, family health services, fixed assets, main accounting, ordering and certification, payroll and members' expenses. Our overall conclusion was that NHS Highland 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.

64. 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. This work provided us with additional assurances on the adequacy of the internal control environment within NHS Highland.

Statement on internal control

65. The Statement on Internal Control (SIC) provided by NHS Highland's Accountable Officer reflected the main findings from both external and internal audit work. The SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC. The SIC included details of the Board's Accountability Arrangements, Risk and Control Framework and approach to Best Value and complied with the guidance issued by the SGHD on 19 March 2010.

Internal Audit

66. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on NHS Highland'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 indicated in our annual audit plan.

Prevention and detection of fraud and irregularities

67. NHS Highland has a comprehensive range of measures in place to prevent and detect fraud including Standing Financial Instructions, Standing Orders and a range of policies and procedures. The Board has also entered into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS).

68. 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.

69. 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

70. During the year NHS Highland 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.

71. 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.

72. As part of our local audit work we carried out a high level assessment of NHS Highland's approach to the NFI. We concluded that the Board is proactive in preventing and detecting fraud including participation in the NFI.

73. 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.

74. Overall, the outcome of the 2008/09 exercise was worth £21.1 million to the public purse. The report also highlighted 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.

75. 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.

76. 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

77. 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

78. NHS Highland's Strategic Framework for 2010/1 sets out the Board's overall vision as being:

    "Quality care to every person, every day."

    In order to achieve this overall vision the Board have identified 3 key aims:

    - "Better Health – Improving the Health of the Population"
    - "Better Care – Enhancing the Experience of Care"
    - "Better Value – Controlling the per Capita Cost of Care".

79. To enable NHS Highland to achieve these aims, and the delivery of the targets set out in their Local Delivery Plan the Board have set out a number of corporate objectives under each of the key aims detailed above.

Managing risk

80. There a number of key challenges and risks for the Board in achieving its corporate objectives. To manage these the Board has put in place robust systems for the identification and management of risk including the adoption of a single corporate risk register. The corporate risk arrangements are supported by local risk registers and risk management arrangements for each CHP and Raigmore hospital. The challenge for the Board in the future remains to embed a risk aware culture within the organisation for the management of existing and emerging risks in the medium to long term.

81. The main risk areas are:

    - Financial Management & Affordability
    - Service Redesign and Sustainability
    - Effective Partnership Working
    - Performance Management
    - Workforce Planning.

82. 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

83. Our annual audit plan also highlighted that NHS Highland faces particular issues in relation to the rurality and remoteness of the geographic area it covers. As a result NHS Highland faces a unique challenge in providing safe and sustainable services to their resident population.

84. During 2009/10 it was noted that a number of innovative service developments have been implemented that aim to assist the Board in coping with the day-to-day challenges presented by their rurality and remoteness, these included:

- **Teledialysis Project –** The Board funded the installation of mobile video conferencing equipment in the renal unit at Raigmore Hospital and the satellite renal unit at Caithness General Hospital in order to reduce waiting times and the number of patients having to travel to Inverness.
- **East Sutherland Home Service –** A new service was launched to enable more people in East Sutherland to be treated and cared for in their own homes. The aim was to promote faster recovery from illness, prevent unnecessary acute hospital admissions, support timely discharges and maximise independent living, particularly for older people and people with long-term conditions.

85. In addition to the initiatives detailed above NHS Highland also introduced a number of other more traditional service developments during the year. These included:

- **New Dental Centre in Campbeltown –** Work commenced on a new dental centre in Campbeltown to improve access to dental services and meet future demand.
- **Patient Booking Service at Raigmore –** A Highland Booking Service was created which ensures patients are actively involved in agreeing appointment dates and times and early indications show that the "Did Not Attend" rates have fallen to less than 5% which is below the national average.
- **New Community Hospital in Nairn –** Phase 1 of a new integrated health and social care development opened during 2009/10 and includes accident and emergency services and GP clinics.

86. The impact of all service developments require to be closely monitored by the Board going forward to ensure that they continue to contribute to improving the patient experience.

Performance Overview

87. NHS Highland has a well developed framework in place for monitoring and reporting performance. Comprehensive performance reports detailing performance against national and local targets are submitted to each meeting of the Improvement Committee who use Citistat principles (Highstat) to monitor and scrutinise the performance. The Improvement Committee in turn provide an assurance report to each Board meeting setting out agreed actions to be taken to address any areas of underperformance.

88. The Board demonstrated good performance against a number of very challenging HEAT targets by the end of March 2010 including the 80% dental registrations of 3-5 year olds target and the 62 day cancer waiting time target. Some targets, including inpatient/day case waiting times and new outpatient waiting times were however not achieved.

89. 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. As stated above, at the end of March 2010 NHS Highland had not achieved the target of no outpatients waiting more than 12 weeks from GP referral to an appointment. In addition, the Board did not achieve the 12 week inpatient/day case waiting time target by March 2010.

90. As at the end of March 2010 the Board reported there were 5 patients whose discharge from hospital had been delayed in excess of 6 weeks. The standard requires Boards to have no patients waiting in excess of 6 weeks by April 2010. Furthermore, we noted that at times during 2009/10 NHS Highland has had as many as 25 patients whose discharge from hospital had been delayed for a period in excess of six weeks. This highlights the extent of the challenge facing the Board in achieving this standard and maintaining this figure at a zero level.

91. 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

92. The Minister for Public Health as part of the Annual Review of NHS Highland in June 2010 highlighted areas where specific action would be required to ensure that certain performance targets are achieved. An Annual Review action plan is currently being compiled which will identify the Board officer responsible for progressing actions agreed with the Minister for Public Health.

93. One of the major challenges facing all boards in Scotland is tackling health inequalities. Although levels of deprivation within the Board area are below the Scottish average, the Board has incorporated actions within its Local Delivery Plan, service plans and performance reports to assess progress in this area.

Improving public sector efficiency

94. 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 provided an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report on the previous efficiency programme.

95. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. However, there are serious financial challenges ahead – the most significant since devolution – and making the required savings through efficiency will become increasingly difficult.

96. The report recommended that in order to deal with reduced future funding and to increase savings, public bodies need to consider fresh approaches to improving efficiency and productivity. They must also take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.

97. The drive to improve efficiency and productivity is not just an exercise for managers and service providers, it also 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 (shown 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.

98. 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 within the Board for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.

National Studies

99. Audit Scotland's Performance Audit Group undertake 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.

100. At a local level, NHS Highland circulates all national reports for noting at the Board's Audit Committee. However, there is currently no formal process in place to ensure that the findings of national reports relevant to the Board are considered in detail to identify their potential impact and the Board's progress in addressing recommendations locally. The following table lists all Audit Scotland national reports issued during 2009/10 which may be of relevance to the Board.

Table 3

Audit Scotland national performance reports issued during 2009/10

Report Title	Date of Publication
Managing the Use of Medicines in Hospitals – Follow-up Review	16 April 2009
Overview of Mental Health Services	14 May 2009
Improving Public Sector Purchasing	23 July 2009
Scotland's Public Finances: Preparing for the Future	5 November 2009
Overview of the NHS in Scotland's Performance 2008/09	10 December 2009
Improving Public Sector Efficiency	25 February 2010
Managing NHS Waiting Lists	4 March 2010
Review of Orthopaedic Services	25 March 2010

101. Audit Scotland's expectation is that NHS Boards should consider the findings contained in national reports and identify actions to be taken locally. Recent discussions at the Audit Committee highlighted the need for the Board to introduce a suitable process for dealing with national reports and due consideration is being given to this issue.

Risk area 7

102. Full copies of all the above reports and our other national reports can be downloaded from Audit Scotland's website (www.audit-scotland.gov.uk).

Looking Forward

103. NHS Highland faces a number of challenges in 2010/11, which include:

- **Financial management and affordability –** The funding settlement for 2010/11 provides an uplift of 2.15%. Given the current economic situation, and the impact of the recent UK Government emergency budget in June 2010, the future for funding uplifts is uncertain. This could have a significant impact for long term financial planning and the control of pay and non pay costs. NHS Highland have also identified that during 2010/11 it must deliver an Efficiency Programme of £14.7m in order to eliminate the deficit, fully fund inflationary pressures, and fund agreed developments appropriately. Delivering these efficiency savings without impacting on services presents a significant challenge for the Board.

- **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 most significant since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with any reduced future funding and increase savings, fresh approaches to improving efficiency and productivity must be considered. This will require a more fundamental approach to be taken to identify priorities, improve the productivity of public services, and improve collaboration and joint working. NHS Highland has projected that savings of between £14m and £22m per annum will have to be made in the years beyond 2010/11 to achieve financial balance. The challenge for NHS Highland is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.

- **Equal Pay –** The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Highland currently has 211 claims outstanding. Significant ongoing uncertainties have been identified by the CLO resulting in an unquantified 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.

- **VAT increase –** The Chancellor's emergency budget on 22 June included an increase in VAT from 17.5% to 20% from January 2011. It has been reported that the VAT increase will increase the cost of supplies across the NHS in Scotland by £26 million and NHS Highland will bear a portion of this increase. The increase in VAT poses a further risk to the Board's financial position.

- **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 Highland should continue to respond to this important initiative as it develops.

104. 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 Highland 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.	NHS Highland will, like all other NHS Boards, maintain close contact with SGHD and CLO to ensure national position is reflected locally.	Director of Finance	Ongoing
2	As at 31 March 2010, £6.348m of accrued income was recognised in NHS Highland's financial statements in respect of the Surplus Sites agreement. Given the current economic climate there is a risk that this anticipated income may not be fully realised.	Continued work with professional property advisors to ensure that appropriate position continues to be included.	Director of Finance	Ongoing
3	During 2010/11 the Board require to achieve £14.7 million of recurring cost savings to achieve break-even. Delivery of these savings presents a risk to the quality of and affordability of services.	Strengthened managerial arrangements and governance put in place to manage delivery.	Chief Executive	March 2011
4	The Board continues to face significant cost pressures relating to the rate of growth in prescribing costs and the anticipated increases in workforce costs and supplies during 2010/11. Any significant fluctuations in these costs will present a risk to NHS Highland achieving financial balance.	National position with work being undertaken to identify / manage prescribing pressures, using finance, pharmacy and medical staff. Continual monitoring of other costs throughout the year are in place to identify risk areas as early as possible.	Director of Finance	March 2011
5	There is a risk that NHS Highland may not be able to maintain and improve their performance against the nationally determined HEAT targets.	Balanced scorecard maintained and presented to Governance Committees, with delivery overview from Improvement Committee.	Chief Executive	Ongoing
6	The Board may not achieve the sickness absence standard of 4%.	Close monitoring of rates over all units, allowing target of any corrective action.	Director of Human Resources	March 2011
7	There is a risk that the Board may not recognise and respond to issues highlighted in national performance reports issued by Audit Scotland.	Revised process implemented through Chair of Audit Committee.	Director of Finance	Ongoing