Report to Argyll & Clyde Health Board on the 2004/2005 Audit
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Executive Summary

Introduction

As part of our responsibilities as external auditors of Argyll & Clyde Health Board we are required to submit to you, at the conclusion of each year’s audit, an annual report on the key findings from our audit. This report summarises our conclusions and is set out in four sections covering:

- **Risk Assessment** —risks highlighted in our audit planning framework and how these have progressed in the year.
- **Financial Statements** —the findings of our financial statements audit including performance against targets and our opinion on the statement on internal control.
- **Performance Management** —our assessment of the way in which Argyll & Clyde Health Board secures value for money in distinct areas.
- **Governance** —our assessment of the Board’s clinical governance, staff governance and corporate governance arrangements.

In May 2005 the Minister for Health & Community Care announced a decision to consult on the dissolution of Argyll & Clyde Health Board. Under proposed plans responsibility for services would be transferred to NHS Highland and NHS Greater Glasgow and funding provided to clear the cumulative excess. The findings in this report should be considered in the context of the dissolution of the Board.
Risk Assessment

We identified the following significant risks in our Audit Planning Framework document. Our view on the current position is stated below:

- **Service Sustainability:** — We reported in 2003/2004 that the sustainability of health services, in the context of managing the serious financial position was your single largest risk factor. The clinical strategy ‘Shaping the Future’ mapped out the future provision of services in Argyll & Clyde and the ‘Community Care’ section was approved in November 2004. A decision on the ‘Acute Services’ section was deferred until the Kerr report was issued and it will now be discussed at the Board meeting in October 2005. Uncertainty over the future provision of acute services has remained throughout 2004/2005. The Board has continued to manage service delivery at the same time as managing its difficult financial position. It is essential that future decisions on service delivery are consistent with the plans of NHS Greater Glasgow and NHS Highland. In this period of major change and uncertainty service sustainability remains the single biggest risk for the Board.

- **Workforce Planning:** — We reported previously that adequate workforce management information systems, necessary for strategic management and service planning, were not in place. The Board made progress in the collation of workforce information, but there is still no single system for collation and reporting purposes. Risks remain over your ability to retain and recruit staff, particularly in light of the Ministerial announcement to consult on the dissolution.

- **Organisational Change:** — We highlighted in 2003/2004 that organisational structures were not fully supported by an internal control environment necessary to achieve proper governance. You strengthened your governance arrangements following the revision of committees during the year. You have responded to the Ministerial announcement by centralising decision making and installing a single operational management executive governance committee to replace divisional management teams. A Dissolution & Integration Project Board consisting of the Accountable Officers from the three organisations will oversee the dissolution process. Our view is that this is still a high risk area, but you are taking clear steps to manage the risks in the light of the pending dissolution.

- **Financial Position:** — We commented on the risks to the Board’s serious financial position and the impact of significant financial pressures that make it difficult for the Board to improve this. We make further comment on this later, however, the achievement of financial plan targets remains a significant risk for the Board.
Financial Position

- We have given an unqualified opinion on the financial statements of Argyll & Clyde Health Board for 2004/2005, including the regularity of income and expenditure and the Board's Statement on Internal Control. We have, however, provided an explanatory paragraph in relation to the Minister's decision to consult on the dissolution of the Board and the transfer of services to NHS Highland and NHS Greater Glasgow.

- The Board's financial performance in 2004/2005 was as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned in-year operating deficit</td>
<td>25.4</td>
</tr>
<tr>
<td>Actual in-year operating deficit</td>
<td>24.1</td>
</tr>
<tr>
<td>Cumulative deficit</td>
<td>59.5</td>
</tr>
<tr>
<td>Planned savings target</td>
<td>14.0</td>
</tr>
<tr>
<td>Actual savings achieved (recurring &amp; non-recurring)</td>
<td>18.2</td>
</tr>
</tbody>
</table>

- The financial recovery plan set challenging targets and these have been met successfully by the Board during 2004/2005. At the start of the financial year, the Board identified that it had a potential in-year deficit of £39.4 million. Planned savings of £14 million were to be applied against this target to leave an in-year target deficit of £25.4 million. In fact, the Board has achieved £18.2 million of savings during 2004/2005 with £10.5 million of these on a recurring basis. The actual year end outturn, reported in the annual accounts, is £24.1 million.

- The Board managed its financial position to meet targets whilst accommodating significant redesign costs and cost pressures which have arisen throughout the year, for example, costs associated with the new GMS contract, the new consultant contract and costs arising from the voluntary redundancy programme. To put this in context, the costs of the voluntary retirement and redundancy programme are budgeted at £10.7 million.

- The Board has an in-year recurring funding gap of around £47 million. The Board has however, managed this position during the year through the achievement of savings programmes and slippage in non-recurring funding.

- Non-recurring funding of £36.7 million, including £15.9 million planned, derived from asset sales, slippage on developments and capital to revenue virement, was used to reduce the Board's 2004/2005 year-end deficit to £24.1 million. £6.3 million of earmarked funding for specific projects will be re-provided in 2005/2006 and represents a risk to the achievement of the financial plan. On dissolution it will be important that the inheriting boards are made fully aware of underlying commitments.
Executive Summary

Performance

- Performance against waiting times targets has been an area of significant progress over the past two years. The Board reported that it met all of its waiting times targets set by the SEHD.

- Against a backdrop of significant financial and service challenges, it is important to acknowledge the ongoing performance improvements against key targets that are being achieved in NHS Argyll & Clyde.

- Despite the performance improvements, there has been limited progress on the development of comprehensive performance management arrangements. Performance information is collated from a number of sources, but it is not presented to the Board in a systematic or structured manner that would allow members to track performance. More detailed analysis of the Board's performance against its corporate objectives is required.

- Corporate risk management arrangements are not sufficiently developed to provide a systematic approach for identifying, evaluating and responding to risks. The importance of this area has been magnified by the dissolution announcement.

Financial Position (continued)

- The Board’s financial recovery plan was approved by the Scottish Executive Health Department (SEHD) after the 2004/2005 year-end. This means that the Board operated throughout the year without an agreed financial plan. Agreement was reached following the Scottish Parliament Audit Committee’s report on NHS Argyll & Clyde.

- The community care section of the clinical strategy has been costed and detailed proposals will be taken to the Board meeting in August 2005. The costs associated with the acute service section of the clinical strategy will not be developed until later in the year. This means that the clinical strategy is not yet fully costed.
Looking Forward

- NHS Argyll & Clyde faces significant challenges in 2005/2006 as it moves towards dissolution and the transfer of services to NHS Highland and NHS Greater Glasgow. These include:
  - sustaining services and continuing to retain and recruit staff
  - ensuring that the financial recovery plan targets are met
  - putting in place effective arrangements for risk management, performance management and workforce planning
  - addressing the challenges of the Kerr report and developing new community based models of care through CHPs

These areas and the controls put in place by management to address these issues will be subject to ongoing audit review in 2005/2006.

- Clearly, the dissolution process itself is a major challenge. The Board is tackling this challenge and we will continue to monitor progress in this area.

Governance

- During 2004/2005 the Board embarked upon a programme to change the way clinical services are delivered. The Clinical Strategy 'Shaping the Future' set out the Board’s model to ensure the sustainability of health services in Argyll & Clyde. Community care services models have been approved, but a decision on acute services has been delayed until later in 2005.

- Staff governance arrangements continued to develop during 2004/2005. The Board successfully completed the Self Assessment Audit Tool and we concluded that a robust process had been followed.

- Your corporate governance arrangements continue to develop. Revised committee remits and terms of reference were introduced during the year designed to enhance the level of scrutiny.

- As we reported in 2003/2004, the organisation is not yet supported by a fully effective internal control environment. We noted improvements in the quality of financial management and reporting during 2004/2005. It will be important that these are maintained as the Board moves towards dissolution. As a matter of urgency, the Board needs to strengthen its arrangements for:
  - risk management
  - performance management
  - workforce planning

These requirements are fundamental to ensuring that strategic and operational decisions are made based on sound evidence and demonstrate good governance. They are also important for the effective management of the dissolution process.
1. Introduction

1.1 This report summarises the findings from our 2004/2005 audit of NHS Argyll and Clyde. The scope of the audit was set out in our Audit Planning Framework, which was submitted to the Audit Committee on 2 February 2005. This plan set out our views on the key business risks facing the Board and described the work we planned to carry out on:

- financial statements;
- performance; and
- governance.

1.2 This report completes our audit by giving you an overview of the work we carried out and, more importantly, our key findings. We have structured the main body of the report to cover the three topics listed above as well as our view on risks. Inevitably, there is overlap between the different sections of the report. For example, our view of the risks you face in delivering sustainable services are informed by our related work on performance and governance. This means that consistent themes emerge throughout the report and we have summarised these in the final section and appendix A.

1.3 We have issued a range of reports this year covering our governance, performance and financial statements responsibilities in terms of Audit Scotland’s Code of Audit Practice. Managers have committed to carry out the recommendations, which are directed at higher areas of risk. Appendix A sets out the key areas highlighted in this report and action planned by the Board to manage these risks. Other higher risk areas and related planned management actions have previously been reported to the Board in other topical reports.

1.4 Throughout this report, we refer to the pending dissolution of NHS Argyll & Clyde. Most of our audit work was completed before the dissolution announcement was made. We have tailored our findings to be relevant to you in the Board’s likely final year of operation.

1.5 We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our audit work.
2. Risk Assessment

Introduction

2.1 In our audit plan, we identified four main areas of risk for NHS Argyll & Clyde. We also described longer term planning issues which will impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status. We also comment on longer term planning issues.

Financial Position

2.2 In our audit plan, we commented on the risks to the Board’s ability to deliver sustainable health services due to the serious financial position which it faced. We also commented on the significant financial pressures such as Agenda for Change, the nGMS contract and the consultant contract that make it difficult for you to improve your financial position.

2.3 At the end of 2004/2005 expenditure exceeded income by £24.1 million. This in-year performance compares favourably with the target set in the financial recovery plan, which budgeted for an overspend of £25.4 million. This position has been achieved whilst accommodating significant service redesign costs, including providing £10.7 million for voluntary redundancy and retirement. Combined with the deficits incurred in previous years, you now have a cumulative excess of £59.5 million.

2.4 The Minister for Health & Community Care announced in May 2005 that following a period of public consultation, the Board would be dissolved, its services taken over by NHS Greater Glasgow and NHS Highland and the accumulated excess cleared. During the period of consultation on the dissolution of NHS Argyll & Clyde there is an increased risk of financial targets not being met. This may be from increased costs due to recruitment and retention difficulties or because budget holders may view the dissolution as a disincentive to continue to meet challenging targets. It is critical that a robust system of internal control and financial management is in place during 2005/2006. This is covered in more detail in the governance section of the report.

Refer Risk Area 1

Sustainable Health Care Services

2.5 In our audit plan, we noted that you have a plan for sustaining clinical services in Argyll and Clyde. However, at that time, it had not been approved by the Minister for Health & Community Care. This meant that you were at risk of being unable to match the changing demand for services with appropriate, safe, sustainable services. At the Board meeting in November 2004, the Board approved the “care in the community” section of the clinical strategy and this was ratified by the Minister in April 2005. A decision on the future of acute services was deferred until the outcome of a review by Professor David Kerr on the future shape of the NHS in Scotland was known. There was, therefore, no acute service strategy in place during 2004/2005. The Board however implemented contingency arrangements to ensure services continue to be delivered during the year.
2.6 The Board continued to develop service redesign proposals through the work of the Service Strategy Redesign Committee, and the future of acute services will be discussed by the Board later this year. It will be essential that any decisions taken by NHS Argyll & Clyde are capable of being aligned with the service plans of NHS Greater Glasgow and NHS Highland. Until services can be modernised there remain increased risks surrounding the Board’s ability to deliver appropriate, safe, sustainable services in an environment of changing clinical demands.

Refer Risk Area 2

Workforce Planning

2.7 We previously reported that the Board did not have adequate systems in place to provide the necessary information for strategic management and service planning. The Board is still developing workforce management information and continues to face significant risks over its ability to retain and recruit sufficient staff to meet longer term service demands. The Ministerial announcement on dissolution will increase the risk that the Board will be unable to recruit and retain staff.

2.8 In response to our 2003/2004 report on workforce management information progress has been made in improving systems used for the collation of consistent and reliable workforce information across the organisation. The roll out of the Empower HR system is expected to be completed in August 2005 and will provide a single HR system for the whole organisation. This will lead to an improved and consistent information base for the organisation and enable the Board to prepare for future developments, such as the roll out of the national workforce information database (SWISS) and the transfer of staff to inheriting boards.

Organisational Change

2.9 We highlighted in 2003/2004 that organisational structures were not fully supported by an internal control environment necessary to achieve proper governance. In response to the announcement to dissolve NHS Argyll & Clyde, the Board dissolved its divisional governance committees and replaced them with a single operational management executive governance committee. A Dissolution & Integration Project Board consisting of the Accountable Officers from the three organisations has been established to oversee the dissolution process and its work will be supported by a Project Team. During the year the Board strengthened its corporate governance arrangements by reviewing the work of committees and improving the integration of their work through revised terms of references.

2.10 The Board has clearly taken steps to improve internal controls and governance structures. We still have some concerns about aspects of control and these are discussed later in this report. This continues to be an area of risk.

Refer Risk Area 3

Longer Term Planning Issues

2.11 In our plan, we highlighted four longer term planning issues that would have an impact on the Board in future years:

- shared support services;
- Professor David Kerr’s national review of healthcare services;
• community health partnerships (CHPs); and
• modernising medical careers.

2.12 We have been monitoring developments in these areas during the 2004/2005 audit. In the following paragraphs, we comment on changes that have taken place since we agreed our plan.

**Shared Support Services**

2.13 The NHS in Scotland plans to create £10 million recurring savings annually with the introduction of shared support services covering finance, procurement, payroll and practitioner services payments. Plans approved by the Chief Executive of the NHS in Scotland are for a two hub and twelve spoke model of service delivery but it is not yet known how this will impact on staff in Argyll & Clyde Health Board following the Ministerial announcement on dissolution. The implementation date for the shared support services is likely to be in 2007, but we will continue to monitor the impact of shared services during 2005/2006.

**The Kerr Report**

2.14 The Kerr report ‘Building a better health service fit for the future’ outlines proposals for the future shape of NHSScotland over the next twenty years. The report recommends that all NHS boards establish a systematic approach to caring for the most vulnerable people with long-term conditions, especially older people. The report foresees a new healthcare model being adopted with a move away from acute hospital based services to community based health provision. This will be achieved through local hospitals, health centres and CHPs. It is essential that the Board responds to the contents of the Kerr report as it progresses the implementation of the clinical strategy and moves toward dissolution and the integration of services with inheriting boards.

Refer Risk Area 4

**Community Health Partnerships**

2.15 The establishment of community health partnerships is a key element in developing single system working within a community setting. They are being developed within the context of the ‘Partnership for Care: Scotland’s Health White Paper (2003)’ initiative and their development is closely linked to other initiatives such as regional planning. They also build on the success of Local Health Care Co-operatives and take forward the joint future agenda by promoting interaction between health boards, local authorities and the voluntary sector.

2.16 The Community Health Partnerships (Scotland) Regulations (effective from October 2004) supported by CHP statutory guidance, required each health board to submit a scheme of establishment to Scottish Ministers for approval. NHS Argyll & Clyde’s schemes of establishment were not approved by Ministers prior to the announcement on the dissolution. In the meantime, the Board should look to the CHP delivery models in use within inheriting boards for guidance and progress discussions with their local authority partners on the establishment of CHPs in the Argyll & Clyde area. We will monitor progress in this area in 2005/2006.

Refer Risk Area 5
Modernising Medical Careers

2.17 The national implementation of a structured training programme for junior doctors commenced in August 2004. “Modernising Medical Careers — The next steps”, published in April 2004, outlines the principles and structure of the two year foundation programme for graduate doctors, followed by specialist and general practice training programmes.

2.18 The service impact of the move of junior doctors to ‘supernumerary’ status (i.e. a training focus with reduced service input) is applicable from 2006/2007. Appropriate contingency arrangements must be in place to ensure that service delivery remains unaffected by these changes. We will continue to monitor the impact of Modernising Medical Careers on financial and workforce resources throughout 2005/2006.
3. Financial Statements

Introduction

3.1 This section sets out our responsibilities under the Code of Audit Practice and identifies relevant matters which we wish to bring to your attention.

Our Responsibilities

3.2 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 have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and

- the regularity of the expenditure and receipts.

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; and

- assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

The Financial Statements

3.3 Our comments on the financial statements of Argyll and Clyde Health Board for 2004/2005 cover four key areas. These are:

- the independent auditor’s report on the financial statements;

- the Board’s financial position;

- the issues arising from the audit; and

- Statement on Internal Control.

The Independent Auditor’s Report on the Financial Statements

3.4 We have given an unqualified opinion on the financial statements of Argyll and Clyde Health Board for 2004/2005. We have, however, provided an explanatory paragraph to our opinion on the Board’s financial position. This draws attention to the Board’s accumulated excess of £59.5 million which will be cleared when services are transferred to NHS Highland and NHS Greater Glasgow, and NHS Argyll & Clyde is dissolved.

The Board’s Financial Position

3.5 In common with other health boards in Scotland, you are set financial targets by the SEHD:
• to remain within the revenue resource limit (RRL),
• to remain within the capital resource limit (CRL); and
• to remain within the cash requirement.

Your performance against these three financial targets in 2004/2005 is shown in Table 3.1 below:

<table>
<thead>
<tr>
<th>Financial Target</th>
<th>Target</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue Resource Limit</td>
<td>527.5</td>
<td>587.0</td>
<td>(59.5)</td>
</tr>
<tr>
<td>Capital Resource Limit</td>
<td>11.5</td>
<td>10.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Cash Requirement</td>
<td>550.5</td>
<td>550.5</td>
<td>-</td>
</tr>
</tbody>
</table>

3.6 The use of the RRL has weaknesses as an absolute measure of performance on financial management as it is not fixed for the financial year. In 2004/2005 there were 111 changes to NHS Argyll and Clyde’s RRL as notified by the SEHD. These required adjustments to the financial plan and outturn projections. During 2004/2005 the SEHD issued changes to the RRL on a monthly basis and this has helped improve officers’ ability to make forecasts and projections. The final 2004/2005 RRL and CRL targets were confirmed on 22 June 2005.

3.7 The Board’s financial recovery plan was approved by the SEHD in May 2005 after the end of the 2004/2005 financial year. This means that the Board operated throughout the year without an agreed financial plan with the SEHD. Agreement was reached following the Scottish Parliament Audit Committee’s report on NHS Argyll & Clyde.

3.8 The financial recovery plan set challenging targets for the Board and these have been met successfully in 2004/2005. At the start of the financial year, the Board identified that it had a potential in-year deficit of £39.4 million. Planned savings were applied against this target to leave an in-year target deficit of £25.4 million. The actual in-year deficit reported in the annual accounts is £24.1 million. See table 3.2 below for detailed analysis. Further savings of £24 million are required in 2005/2006 to meet financial targets.

Refer Risk Area 6
Table 3.2
2004/2005 Comparison of financial plan and actual position £ million

<table>
<thead>
<tr>
<th>Description</th>
<th>£ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned 2004/2005 deficit—financial recovery plan</td>
<td>(39.4)</td>
</tr>
<tr>
<td>Savings achieved</td>
<td>18.2</td>
</tr>
<tr>
<td>Virement from future sale of Hawkhead Hospital</td>
<td>7.7</td>
</tr>
<tr>
<td>Voluntary severance costs</td>
<td>(10.7)</td>
</tr>
<tr>
<td>GMS contract unfunded costs</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Unplanned payments to NHS Greater Glasgow</td>
<td>(3.0)</td>
</tr>
<tr>
<td>Slippage on developments</td>
<td>3.0</td>
</tr>
<tr>
<td>Year end adjustments</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Reported 2004/2005 Deficit</strong></td>
<td><strong>24.1</strong></td>
</tr>
</tbody>
</table>

3.9 The Board’s recurring income and expenditure amounts are £598 million and £645 million, leaving a recurring funding gap in year of around £47 million. The Board has managed this position through corporate savings programmes and slippage on developments.

Table 3.3
Recurring Funding Position 2004/2005

<table>
<thead>
<tr>
<th>Description</th>
<th>£ Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recurring income</td>
<td>598.6</td>
</tr>
<tr>
<td>Recurring expenditure</td>
<td>(645.0)</td>
</tr>
<tr>
<td><strong>Estimated underlying recurring funding gap</strong></td>
<td><strong>(46.4)</strong></td>
</tr>
</tbody>
</table>

3.10 The Board achieved £18.2 million of savings during 2004/2005, with £10.5 million on a recurring basis. This represents significant progress and demonstrates that the Board has been able to manage its financial position to meet its financial plan despite a number of cost pressures which have arisen throughout the year. For example the costs associated with the new GMS contract and the costs arising from the voluntary redundancy programme.

The Issues Arising from the Audit

3.11 We reported two main issues to the Audit Committee on 22 July 2005:

- **Ministerial Announcement:** The Minister for Health & Community Care announced in May 2005 that following a period of public consultation, Argyll & Clyde Health Board would be dissolved and its services taken over by NHS Greater Glasgow and NHS Highland. Our view is that there is no need for a going concern qualification on the basis that patient services will continue under the control of other boards. The Board has made appropriate disclosures in its accounting policies in relation to the dissolution.
We have recently received correspondence from the Board setting out its proposals for the consultation process and management of the Board through dissolution. It will be critical that risks are managed during this process, a key element of this being sufficient management capacity to continue to deliver safe health services.

- **Voluntary Redundancy / Voluntary Early Retirement:** At its meeting in December 2004, the Board approved a maximising security of employment policy which gave a commitment of no compulsory redundancies in the following two year period. It also gave approval for a programme of voluntary redundancy and voluntary early retirement (VR/VER), aimed at redesigning the workforce to support the Board's wider service redesign agenda. Administration and clerical staff were the first group of staff that were asked to express an interest in VR/VER. The Board followed a robust interview and selection process and required line managers to demonstrate to a selection panel that service provision would remain unaffected were each person to leave the organisation.

The costs to the Board in 2004/2005 of allowing one hundred and seventy staff to leave either on the grounds of premature retirement or voluntary redundancy is £10.7 million. This cost will be recovered by the Board in approximately two years, through recurring savings of £5.0 million per year which will be released. On this basis, the overall exercise supported the Board’s long term drive to reduce its recurring cost base.

**Statement on Internal Control**

3.12 The Statement on Internal Control provided by the Accountable Officer reflected the main findings from both external and internal audit work. The Statement refers to areas of internal control that need to be strengthened, including:

- risk management arrangements are still developing. A corporate risk register is now in place, but as yet divisional risk registers are not in place. As at 31 March 2005 a risk management strategy was also not in place. Plans to develop risk management have stalled following an internal restructuring and the introduction of strategic management arrangements following the announcement on dissolution;

- healthcare governance arrangements were not fully in place throughout the year. NHS Argyll and Clyde is working towards ensuring that area-wide and divisional committee structures achieve the requirements of appropriate standards in this area;

- performance management monitoring and reporting arrangements are not yet in place. A Performance Framework Group has been formed to develop this area and support improved services and scrutiny;

- a single system for the collation and reporting of workforce information statistics was not in place during the year;

- a strategic Information Management and Technology (IM&T) plan to underpin the administration and operation of the Board was approved after the year end in April 2005; and

- a number of control weaknesses in the payroll system existed during the year.
3.13 We will monitor progress on these issues during 2005/2006 to ensure that NHS Argyll & Clyde maintains its internal control framework during the period of consultation towards dissolution and the transfer of services to NHS Greater Glasgow and NHS Highland.
4. Performance Management

Introduction

4.1 This section covers our assessment of the way in which NHS Argyll & Clyde secures value for money in the use of its resources. This year we focussed on four main areas:

- performance management;
- financial management;
- workforce planning; and
- corporate risk management arrangements.

We also set out the findings of our follow up work on previous performance audit reports and consider the Board’s approach to delivering Best Value.

The Board’s Approach to Delivering Best Value

4.2 Accountable Officers have a duty to ensure that arrangements are in place to secure Best Value. Draft guidance issued in August 2003 provided Accountable Officers with a framework to develop Best Value, although it allowed them discretion to adopt an alternative approach. The draft guidance has not been implemented by the Board, but initial discussions with officers suggest that there has been some development of local arrangements. We intend to focus on this area as part of our audit in 2005/2006.

Performance Management

4.3 A paper covering the Board’s progress against the objectives set by the Minister for the Ministerial Support Team over the past two years was presented by the Accountable Officer to the Board at its meeting on 9 May 2005. It detailed the achievements of the Board and aligned them to the recommendations of the ministerial task group deployed at the end of 2002. The report highlighted success for the local health system in the achievement of waiting times targets for inpatient, day case and outpatients, as well as progress towards financial recovery and targets for the reduction in delayed discharges. It also drew attention to significant changes in service provision within surgical services, emergency medical receiving services and maternity services designed to ensure service sustainability.

4.4 This type of performance reporting is a step forward for NHS Argyll & Clyde as it is focussed and measures performance against specific targets and outcomes, albeit dating back three years. It is important that this same focussed review process is applied to the achievement of the corporate objectives. A paper on the end of year position against the achievement of the corporate objectives was also presented to the Board meeting in May 2005. It adopted a broad overview approach rather than measuring performance against specific targets or outcomes. A systematic approach to performance management reporting is necessary to enable members to track performance over the course of the year.
4.5 The corporate objectives have been used to develop a performance appraisal system for senior staff. Work is underway to cascade performance development plans throughout the organisation.

4.6 NHS Argyll & Clyde has recently taken some positive steps to develop its performance management arrangements through the establishment of a Performance Framework Group (PFG). The PFG's role is to monitor and report progress against the achievement of the corporate objectives; progress against the SEHD Performance Assessment Framework and the development of risk management arrangements. Although at an early stage, this Group could perform a pivotal role in developing a corporate framework for performance management during the dissolution process.

Financial Management

4.7 We identified in our audit plan that the risks to the non-achievement of the financial recovery plan and failure to meet statutory targets remained over the longer term and agreed to carry out a review of financial management. We concluded that the quality of financial information presented to the Finance Committee and the Board was sufficient to allow members to discharge their governance responsibilities. The Board made significant progress during 2004/2005 and has met and exceeded the targets on year-end position and savings set out in the financial recovery plan. Our review also identified some risk areas for the Board:

- the Board's decisions on future savings programmes will need to be consistent with the wider service delivery plans of NHS Greater Glasgow and NHS Highland;

- savings to be delivered in 2005/2006 and beyond may not be achieved if the clinical strategy is not implemented as planned or if there is a time-lag in finalising and implementing plans;

- the cost of new developments such as the nGMS contract, modernising medical careers, e-health and repairs to the estate are difficult to accurately quantify at this stage. It is important that financial projections are up to date and best estimate of future costs are made prior to the transfer of services to inheriting boards; and

- the use of non-recurring funding is a feature of the Board's financial recovery plan. It will therefore be important to ensure inheriting boards are clear on the underlying financial position on dissolution.

Workforce Planning

4.8 We highlighted workforce planning as being a complex and uncertain area in our audit plan. We acknowledged that you were developing your management information in this area, but that you still faced significant risks over your ability to retain and recruit sufficient staff to meet longer term service demands. The Board produced a baseline workforce plan which highlights:

- the challenges faced by the organisation from an aging population which is living longer placing an increasing demand on your services. At the same time
the overall population is declining, with fewer young people of working age and this presents challenges in attracting new employees to a career in the NHS;

- a change in working patterns has seen an increase in flexible and part time working, which will have implications for job design and service delivery models, particularly amongst consultant staff;

- the Partnership Agreement provides for an increase of 600 consultants across Scotland by 2006. This presents a challenge for the management of such posts and calls for innovative approaches on both a local and regional level, emphasising the importance of regional workforce planning; and

- workforce issues will play an increasingly important role in clinical and corporate governance strategies at a time when greater collaboration on service delivery is seen as the way forward.

4.9 We have monitored the implementation of our 2003/2004 report on Workforce Information and have noted the progress made in adopting the recommendations. There are notable improvements in systems used for the collation of more consistent and reliable workforce information across the organisation, although we note concerns over the accuracy of some of the data derived from the payroll system.

4.10 We noted earlier that the roll out the single HR system is expected in August 2005. This will improve service planning and better position the Board for the transfer of staff to inheriting boards.

Refer Risk Area 9

Corporate Risk Management Arrangements

4.11 We identified in our audit plan that the Board was developing its risk management arrangements, but that a corporate risk register had not been presented to the Board and that a formal risk assessment and management approach was not yet in place. We therefore agreed to carry out a review of risk management arrangements.

4.12 We have concluded that the Board does not yet have an adequate risk management system in place to provide a systematic approach to identifying, evaluating and responding to risks. Some progress has been made in the development of corporate risk management arrangements, including the production of a corporate risk register, but there remains scope for improvement. Having effective risk management arrangements is critical in ensuring strategic and operational decisions are made based on sound evidence. The main findings from our review were:

- our comparison of risk management within NHS Argyll and Clyde, with other health boards, highlighted that the Board’s arrangements are less well developed than other health systems. In particular, there is no corporate risk management strategy to direct and guide risk management activity;

- during the course of our review we found that lines of accountability were clear at director level, but some confusion existed elsewhere in the organisation, and the Board’s documentation referred to various senior officers as having responsibility for different aspects of risk management;
• there is no evidence that a monitoring system has been established to capture, record and track progress on managing risks. This is fundamental in ensuring effective reporting to senior officers, and the Board, and also providing assurance that risks are being managed effectively; and

• it is important to have a programme of training and development in place to help ensure that an appropriate level of competency is in place at every grade to manage risk effectively. NHS Argyll & Clyde do not have a development programme in place to support risk management.

4.13 Management control over the dissolution process will require a robust risk management framework. The Dissolution and Integration Project Team has developed a risk log which is a sub set of corporate risk register. This risk log supports the management of the dissolution process. Equally importantly, operational risks may increase through the uncertainty caused by dissolution. Therefore, to ensure effective internal control, it is essential that there are comprehensive corporate and operational risk management arrangements.

National Studies

4.14 In 2004/2005, there were four national study topics. Some of the studies were reported locally by either our own staff or by colleagues in Audit Scotland’s Performance Audit Group (PAG), while others were commissioned from PAG by the Auditor General for Scotland and reported nationally:

• Staff Governance (local report produced by Audit Services);
• Using Medicines in Hospitals (local report produced by Audit Scotland’s PAG);
• A review of bowel cancer services (nationally commissioned report); and
• An overview of delayed discharges in Scotland (nationally commissioned report).

4.15 Staff governance was covered as part of our work on governance within NHS Argyll & Clyde and we have summarised our conclusions at paragraph 5.8 of this report.

Using medicines in hospitals

4.16 Audit Scotland’s PAG carried out a local study on using medicines in hospitals within NHS Argyll & Clyde as part of a wider national review. A number of areas of good practice were identified including the work of the Area Drugs and Therapeutic Committee and the proactive work of the pharmacy departments.

4.17 Areas where further improvements could be made were also identified, including the need for a standard local joint formulary with uniform guidelines to be applied in all hospitals. Incident reporting needs to improve and there is a need to improve training for nurses in relation to the administration of medicine.

A review of bowel cancer services

4.18 This national study reviewed how health bodies are implementing the ‘Cancer in Scotland’ strategy and examined how bowel cancer services in Scotland are performing against clinical standards and national waiting times targets.
4.19 The key message from the national report is that ‘High quality bowel cancer care needs good partnership working between GPs and specialist services, effective communication and co-ordination, and efficient use of diagnostic resources.’

An overview of delayed discharges in Scotland

4.20 The national report highlighted that Argyll & Clyde Health Board outperformed the 20% target reduction in delayed discharges set by the SEHD for the year to April 2004. The SEHD set a more challenging target for 2005.
5. Governance

Introduction

5.1 This section sets out our main findings arising from our review of your corporate governance as it relates to:

• clinical governance;

• staff governance; and

• corporate governance.

Clinical Governance

5.2 We reported in 2003/2004 that the single largest risk factor for the Board was the sustainability of safe, effective and appropriate clinical services, at the same time as addressing the serious financial position. The clinical strategy ‘Shaping the Future’ was designed to address this risk.

5.3 Public consultation on the clinical strategy took place between June and October 2004 and consisted of a series of public meetings throughout Argyll & Clyde. Following completion of the consultation, the clinical strategy was taken to the November Board meeting for approval. You approved the ‘Community Care’ section of the strategy and recommended the closure of five community hospitals. This decision was ratified by the Minister in April 2005 and approval was given to undertake detailed planning. A decision on the ‘Acute Services’ section was deferred until the outcome of the Kerr review was known and it will now be discussed at your meeting in October 2005. Following the Ministerial announcement, it is essential that any decision taken by the Board is aligned to the service development plans of NHS Greater Glasgow and NHS Highland.

5.4 It remains vital that the Board develops financial projections on the cost implications of the clinical strategy. The successful delivery of the financial plan remains dependent upon the implementation of the clinical strategy to produce further cost savings. Delays in its implementation increase the risk that the financial plan will not be met or at least savings will not be made based on a strategic approach.

Refer Risk Area 10

5.5 The Healthcare Governance Committee oversees clinical governance and reports to the Board. A healthcare governance strategy was approved by the Committee in March 2005 and ratified by the Board in April 2005.

Compliance with NHSScotland Staff Governance Standard

5.6 The NHS Scotland Staff Governance Standard introduced the third component of governance. The aim of this standard is to improve the way staff are treated in NHSScotland and to improve accountability for making this happen.
5.7 Every Board is required to use a Self Assessment Audit Tool (SAAT) and information gained from a staff survey to review and update their action plans to achieve the Standard. As part of our responsibilities we review the Board’s SAAT and our findings are considered in the Performance Assessment Framework. Further our findings inform the SEHD Annual Review process.

5.8 Overall, we concluded that NHS Argyll and Clyde made progress in delivering the agreed action plan for 2004/2005. Of the 25 agreed actions, 9 (36%) are complete, 15 (60%) partially complete and 1 (4%) has not been achieved. The one action point not achieved relates to staff counselling provision. It is being addressed under a wider policy initiative for maximising attendance and hence has not been pursued via the Staff Governance action plan.

5.9 We will monitor the Board’s progress in delivering the 2005/2006 action plan during financial year ending 31 March 2006.

Corporate Governance

5.10 Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and your financial position. We have made comment on your financial position at paragraphs 3.5 to 3.10.

5.11 We relied on the work of Internal Audit to give us assurance in these areas and we looked at five specific areas of risk to see what governance arrangements were in place to manage them:

- new General Medical Services (nGMS) contract;
- new financial ledger;
- new Consultant Contract;
- Agenda for Change; and
- Community Health Partnerships.

Our findings on CHPs are discussed in paragraphs 2.15 and 2.16; other findings are set out below along with the significant findings from our follow up work on previous audit recommendations.

New General Medical Services (nGMS) Contract

5.12 A number of areas of good practice were identified, including the establishment of a GMS Contract Implementation Steering Group to manage the introduction of the new contract and close monitoring of nGMS expenditure by the Finance Committee.

5.13 We recommended that the Board should formally monitor the impact of the new contract arrangements on changes to the service and the impact on the skill mix at practice level.
New Financial Ledger

5.14 The implementation of a main financial system can be a significant risk factor for any organisation. We reviewed the new efinancials ledger system, implemented in April 2004 to provide the Board with a single financial ledger system serving the whole organisation.

5.15 We identified a number of areas of good practice including effective project management, user involvement, planning, risk management and training. These controls and procedures helped ensure that the financial management system migration was completed on time and on budget. Further, we also identified some areas for improvement around business continuity and the need to undertake a post-implementation review of the system.

New Consultant Contract

5.16 The new Consultant Contract was implemented on 1 April 2004. The NHS Scotland Pay Modernisation Team (Consultant Contract) issued guidance in October 2004 in PMT 16 requiring that all boards undertake an audit programme to check the actual implementation against the contract terms and conditions.

5.17 Internal audit completed this audit programme as part of their work for 2004/2005. Given the scope of this programme we have relied on this work to provide us with the assurances we require on the implementation of the new contract. The audit concluded that the appointment of a Consultants Contract Implementation Team, supported by a dedicated Project Manager, ensured that the implementation of the Contract has been appropriately undertaken and is reflective of national requirements.

Agenda for Change

5.18 We have monitored developments in the implementation of the Agenda for Change process during 2004/2005. The overall leadership and direction of the three work streams implementing Agenda for Change has been strong. Each steering group meets monthly and reports progress regularly to the Staff Governance Committee.

5.19 The target date for implementation of Agenda for Change nationally is 30 September 2005. However a number of local and national factors will have an impact on NHS Argyll and Clyde and other Boards in achieving this date. Nearly 76% of job descriptions have been agreed as at July 2005.

5.20 We identified the capacity within the payroll section to process Agenda for Change pay calculations as a high risk. Managers are currently considering options to ensure there is sufficient capacity.

Computer Services Review (Follow-Up)

5.21 Our overall conclusion is that significant progress has been made in addressing the risk areas identified during the initial review, although not all the work has been completed as yet. Some of the risk areas will continue to remain areas of concern, particularly as technologies, IM&T personnel and service needs change.

5.22 A number of other activities have been started, but are as yet incomplete. We identified the following risks:
a review has been commissioned from a specialist consultant to help with, amongst others, implementing back-up and recovery standards, server and storage consolidation and network architecture. This will be an important control during the move towards dissolution and integration with other boards;

a standard Service Level Agreement (SLA) has been developed to detail the support and responsibilities of both IM&T and GP practices. This SLA will be tailored to the specific circumstances of each practice and will include, for example, practice hardware and software inventory, business continuity planning and service management; and

an IM&T strategy was not in place during the year, but was agreed in April 2005.

5.23 We will monitor progress in implementing agreed actions during 2005/2006.
6. Looking Forward

6.1 Dissolution at the end of 2005/2006 presents the Board with significant challenges in the year ahead. One of the key challenges will be sustaining clinical services during this time. The implementation of the community care models of service delivery is the first phase of the clinical strategy implementation. The acute services section of the clinical strategy has still to be agreed and will need to be implemented during 2005/2006.

6.2 The financial plan sets challenging targets for 2005/2006 and beyond, particularly the in-year savings target of £24 million. The impact of both dissolution and ongoing cost pressures will make these difficult to achieve. There is, therefore, a significant risk that the Board will not achieve the targets set in the financial recovery plan for 2005/2006. The Board has recognised this as one of its key financial risks for the coming year.

6.3 We have commented on the need for high quality workforce information to improve strategic management and service planning. The Board will face increased difficulties in retaining and recruiting staff during 2005/2006. Workforce planning information will be necessary to enable the Board to manage and prioritise its staff resources effectively.

6.4 We have drawn attention to the internal control environment and concluded that the Board’s existing performance management and risk management arrangements require significant improvement. It is essential that throughout the dissolution process, members are able to track performance and have confidence that risks are being identified, evaluated and managed properly. This will allow you to exercise proper scrutiny and demonstrate good governance.

6.5 Accountable Officers have a duty to ensure that arrangements are in place to secure Best Value. The draft guidance has not been implemented by the Board, but initial discussions with officers suggest that there has been some development of local arrangements. We intend to focus on this area as part of our audit in 2005/2006.

6.6 The development of new community based models of care through CHPs will also be required of the Board in 2005/2006. Although Ministerial approval for the schemes of establishment was not granted, the Board will still need to progress discussions with local authority partners and inheriting boards to ensure that CHPs are established within the Argyll & Clyde area.

6.7 The Kerr Report ‘Building a better health service fit for the future’ places requirements upon boards to implement its recommendations. However, it will be challenging for the Board to implement these in the light of the dissolution.

6.8 It is critical that decisions taken by the Board during 2005/2006 are capable of being aligned with the service plans of inheriting boards, so they do not have to be reversed unnecessarily at a later date.

6.9 The findings and recommendations contained in this report and agreed actions should therefore be considered in the context of the proposed dissolution and integration of services with NHS Greater Glasgow and NHS Highland.
### Key Risk Areas & Planned Management Action

<table>
<thead>
<tr>
<th>Risk Area</th>
<th>Refer Para. No</th>
<th>Risk Exposure</th>
<th>Planned Action</th>
<th>Responsible Officer</th>
<th>Target Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2.4</td>
<td>The Ministerial announcement on dissolution increases difficulties in recruiting and retaining staff. This increases the risk that the Board cannot continue delivering safe services during 2005/2006.</td>
<td>There is an ongoing process to continue to review all areas of service provision to ensure safety and sustainability criteria are met. Contingency plans will be developed where required.</td>
<td>Head of Service Delivery</td>
<td>Ongoing</td>
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<tr>
<td>2</td>
<td>2.6</td>
<td>The acute services clinical strategy may not be implemented in 2005/2006. This impacts on the Board's ability to deliver appropriate, safe services.</td>
<td>There is an ongoing process to continue to review all areas of service provision to ensure safety and sustainability criteria are met. Contingency plans will be developed where required.</td>
<td>Head of Service Delivery</td>
<td>Ongoing</td>
</tr>
<tr>
<td>3</td>
<td>2.10</td>
<td>Proper control and structures will need to be followed to support the process of dissolution. There is a risk that the process will not be effectively managed.</td>
<td>A Dissolution and Integration Project Board has been established by the three Boards concerned to ensure effective management of the dissolution and integration process.</td>
<td>Chief Executive and Director of Governance &amp; Performance</td>
<td>31 March 2006</td>
</tr>
<tr>
<td>4</td>
<td>2.14</td>
<td>The Kerr report recommendations were announced after the announcement on dissolution. The Board may be unable to respond to the report as it progresses its clinical strategy through to dissolution.</td>
<td>Timetable for change will be post dissolution. Implementation will be the responsibility of successor Boards.</td>
<td>NHS Glasgow/NHS Highland</td>
<td>Post 31 March 2006</td>
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<tr>
<td>Risk Area</td>
<td>Refer Para. No</td>
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<tr>
<td>5</td>
<td>2.16</td>
<td>CHP schemes of establishment in Argyll &amp; Clyde have not received Ministerial approval. There is a risk that in their absence, the population of Argyll &amp; Clyde will not fully benefit from the development and improvement of community health services.</td>
<td>There is an ongoing process to ensure that CHPs are implemented by 1 April 2006 at the same time as elsewhere in Scotland. NHS Glasgow and NHS Highland will implement CHPs on this date.</td>
<td>Chief Executive/NHS Highland/NHS Glasgow</td>
<td>1 April 2006</td>
</tr>
<tr>
<td>6</td>
<td>3.8</td>
<td>The savings target of £24 million for 2005/2006 is challenging. There is a risk that the targets in the financial recovery plan may not be achievable.</td>
<td>Ongoing review processes are in place to ensure full achievement of savings targets.</td>
<td>Director of Finance</td>
<td>31 March 2006</td>
</tr>
<tr>
<td>7</td>
<td>4.2</td>
<td>Draft guidance on Best Value has not been implemented and there has been limited development of a local framework. The Board may therefore be unable to demonstrate that it has secured Best Value.</td>
<td>The Board endorses and complies with the broad principles of the guidance. However, it will assess its position to determine what action is required.</td>
<td>Director of Finance</td>
<td>31 December 2005</td>
</tr>
<tr>
<td>8</td>
<td>4.6</td>
<td>There is no overall framework to support regular monitoring and reporting of performance indicators. The Board is unable to effectively manage performance across services and key targets.</td>
<td>Performance information continues to be developed for reporting to the NHS Board.</td>
<td>Director of Governance &amp; Performance</td>
<td>Ongoing</td>
</tr>
<tr>
<td>9</td>
<td>4.10</td>
<td>Workforce management information is not sufficiently developed to address recruitment and retention risks and support service sustainability.</td>
<td>Quarterly reports are now prepared and reported to the NHS Board.</td>
<td>Director of Human Resources</td>
<td>Complete</td>
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</table>
### Risk Area 10, Refer Para. No. 5.4

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<th>Risk Area</th>
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<tr>
<td>10</td>
<td>5.4</td>
<td>The implications of the acute services clinical strategy are not costed and included in financial projections. Service redesign plans and financial targets may not be consistent.</td>
<td>Acute Services Review implications will be reviewed in revised context in parallel with NHS Glasgow.</td>
<td>Chief Executive/NHS Glasgow</td>
<td>Ongoing</td>
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