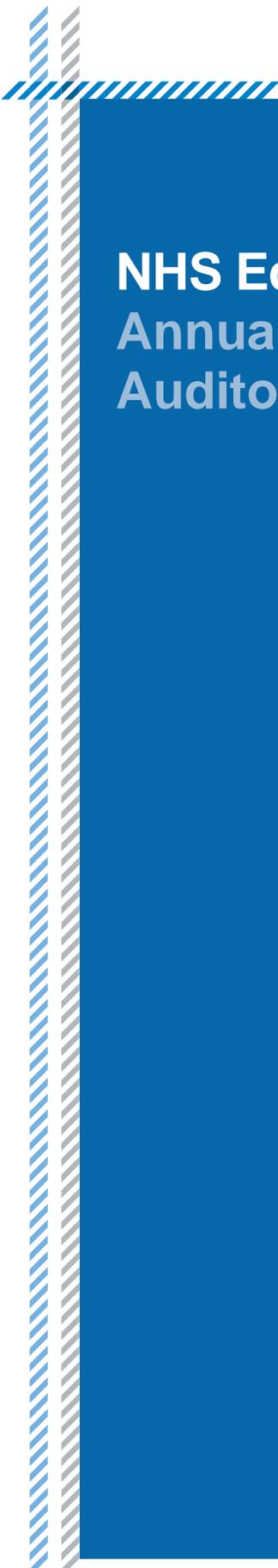




**SCOTT-MONCRIEFF**

EDINBURGH AND GLASGOW



# **NHS Education for Scotland**

## **Annual Report to the Board and the Auditor General for Scotland 2005/06**

June 2006



# NHS Education for Scotland

## Annual Report to the Board and the Auditor General for Scotland 2005/06

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# 1 SUMMARY

## Governance

- NHS Education for Scotland (NES) has developed a system of corporate performance management to allow the organisation to more effectively monitor progress against set business targets. **Paragraph Reference 3.1**
- Despite two non-executive director appointments being made during the year, NES still do not have a non-executive director on the Board who has recent and relevant financial experience as recommended by the SEHD Audit Committee Handbook. **Paragraph Reference 3.1**
- We can confirm that corporate governance arrangements at NES are satisfactory subject to some improvements being made to business continuity planning arrangements. **Paragraph Reference 3.3**
- We have reviewed the website against the Good Governance Standard for Public Services. While on the whole the website was found to be adequate, we have suggested some improvements. **Paragraph Reference 3.5**

## Performance

- Relocation is the key risk currently facing NES. NES must seek to minimise the risks arising from the relocation; such as loss of staff, service sustainability and failing to deliver on the Board's objectives. **Paragraph Reference 4.2**
- As part of the Scottish Executive's Relocation policy, the Board has submitted an outline business case to the SEHD for the relocation of NES to Glasgow. We recommend that if the Chief Executive considers that the preferred option does not provide value for money to NES as an organisation he should seek a direction from the Board regarding the implementation of this decision. This would require to confirm that the Board requires the Chief Executive to implement relocation in the context of the Ministerial policy on relocation. **Paragraph Reference 4.2**
- NES should seek to maximise its joint working arrangements and ensure that it has appropriate arrangements in place to effectively monitor and review the performance of all joint working initiatives. **Paragraph Reference 4.3**
- NES requires to establish and develop continuity and contingency plans for all critical areas. **Paragraph Reference 4.5**

## Finance

- Our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.
- We are pleased to report that NES has achieved both of its financial targets in 2005/06 and achieved an in year surplus of £5.813m. Combined with the surplus carried forward from prior years this has resulted in a total carry forward of £10.96m. NES has received approval from the Scottish Executive to carry forward the full amount. **Paragraph Reference 5.2**
- There has been no guarantee obtained from the Scottish Executive that they will fund the considerable costs that NES is likely to incur in relocation costs and increased running costs once relocation has taken place. Failure to recoup these costs will have a significant impact on the future activities of NES. **Paragraph Reference 5.5**

## Conclusion

This report concludes the 2005/06 audit of NHS Education for Scotland. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that NES has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Director of Finance and Performance Management and has been prepared for the sole use of the NES Board, the Auditor General for Scotland and Audit Scotland.

We would like to thank all members of NHS Education for Scotland's management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

***Scott-Moncrieff***  
***June 2006***

# 2 INTRODUCTION

## 2.1 Audit Framework

The Auditor General for Scotland is responsible for reporting to the Scottish Parliament on how public bodies spend public money, manage their finances and achieve value for money in the use of public funds. In discharging this responsibility the Auditor General appoints NHS auditors and sets the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions. Audit Scotland has prepared a Code for Audit Practice, which sets out the way in which auditors should carry out their functions, and a Statement of Responsibilities which explains where the responsibilities of the auditor begin and end.

The Auditor General has appointed Scott-Moncrieff as auditors of NHS Education for Scotland (NES) for the 4 year period 2002/03 to 2005/06.

## 2.2 Key Priorities and Risks

Our audits are risk based. This means that we focus our resources on the areas of highest priority or risk to the Board. To help us identify these areas, Audit Scotland have developed a National Planning Tool setting out the following key priorities and risks for NHS Scotland as a whole.

- Governance – clinical, staff and financial
- Service sustainability
- Financial management
- Performance management
- Pay modernisation
- Workforce management
- Joint working
- Information management

In order to define the scope of our work, we agreed with the Chief Executive the extent to which each of the above areas were key priorities and risks for NES.

## 2.3 Scope of the Audit

Our work can be classified under the following three headings: performance audit, governance audit and financial audit. The main audit objective for each of these areas is summarised below, along with the key priorities and risks for each area.

## Audit areas v priorities and risks

Audit area	Audit objective	Key priorities and risks
Performance Audit	To review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.	Service sustainability Performance management Workforce management Joint working Information management
Governance Audit	To review the Board's governance arrangements in relation to: <ul style="list-style-type: none"><li>• systems of internal control,</li><li>• the prevention and detection of fraud and irregularity,</li><li>• standards of conduct and prevention and detection of corruption,</li><li>• its financial position.</li></ul>	Corporate governance Clinical governance Financial governance Staff governance
Financial Audit	To provide an opinion on the truth and fairness of the Board's financial statements and on the regularity of transactions.	Financial management Pay modernisation

## 2.4 Audit Reporting

This annual report summarises all of our work during the year and highlights the key issues we have identified under the headings of performance, governance and finance. The action plan in section 6 details all of the high priority recommendations we have made during the year, along with management's responses.

# 3 GOVERNANCE

## 3.1 Governance Framework

The previous financial year for NES was one of considerable change at executive level with the appointment of a new Chief Executive, Deputy Chief Executive, Director of Finance and Performance Management and Director of Medicine. The financial year 2005/06 has seen the NES Board further strengthened with the appointment of two new non-executive directors to give it a full directorate complement.

NES has a unique role within NHS Scotland in the provision of better patient care by designing, commissioning, quality assuring and, where appropriate, providing education, training and lifelong learning for the NHS workforce in Scotland. To reflect this specialist role NES has developed a system of corporate performance management that monitors the organisation's progress against its business targets. In 2005/06 NES reviewed its arrangements for educational governance including the processes for managing educational quality assurance and educational quality improvement. The Educational Governance Committee complements other committees of the Board in providing a comprehensive coverage over the main strands of NES governance.

### Non-Executive Director with Financial Experience

The Audit Committee Handbook, prepared by the SEHD, recommends that at least one non-executive member should have significant, recent and relevant financial experience. The audit committee of NES does not include such a member. As a result there is a risk that the Audit Committee's ability to hold senior management to account on financial issues may be impaired.

Whilst we appreciate that the recruitment of non-executive directors is not under the Board's control, we recommend that the Board continue to pursue the SEHD to ensure that a non-executive director with recent and relevant financial experience is recruited.

## 3.2 Staff Governance

The NHS Reform (Scotland) Act 2004 makes it a statutory requirement for NHS employers to have in place arrangements for good governance of staff. Failure to comply with this duty can attract the powers of intervention contained in the NHS (Scotland) Act 1978. The aim of the Staff Governance Standard is to improve the way staff are treated in NHSScotland, to be clear on what staff should expect wherever they are in NHSScotland, and to improve accountability for making this happen.

A review of Staff Governance was undertaken as part of our performance audit work. From our review we found that NES has undertaken a considerable amount of work to deliver the actions identified from the 2004/05 Staff Governance action plan. The key actions delivered include a review of partnership structures within NES. This was conducted to clarify partnership working structures, redefine the core constitution of local consultative groups, implement a development programme for these groups and emphasise communication arrangements for partnership working across the organisation.

We also found that NES have introduced a number of key policies to create a healthy and safe working environment. NES has achieved the SHAW Bronze award, which gives formal recognition of the safe working environment that has been established. The decision to progress this accreditation and attempt to achieve the SHAW Silver award has been taken and the organisation will be developing further policies for safe and healthy working.

Our review also examined a series of qualitative indicators along with statistical information, which was required to be submitted to SEHD. No issues were identified during this process and overall the information was found to comply with the Staff Governance Standard.

### **3.3 Corporate Governance**

The audited body has a responsibility to:

- Develop and implement systems of internal control and at least annually to conduct a review of the effectiveness of the internal control systems.
- Establish arrangements to prevent and detect fraud and irregularity.
- Ensure its affairs are managed in accordance with proper standards of conduct.
- Conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based.

As auditors we are required to review and report on the NES corporate governance arrangements.

#### **Statement of Internal Controls**

The Board reports on the operation of its internal control framework in the annual Statement of Internal Control (SIC) published in the financial statements. This is signed by the Chief Executive as accountable officer.

Internal audit have produced a report for the year ended 31 March 2006 that presents their opinion on the overall adequacy and effectiveness of NES's risk management, control and governance processes. This report concluded that internal audit have significant assurance that there is a generally sound system of internal control and that controls have been applied consistently. The report identified that there were weaknesses in business continuity controls. These are outlined below under risk management.

In our opinion the SIC complies with the relevant SEHD guidance and is consistent with information we are aware of from our audit of the financial statements.

#### **Internal Audit**

On 1 April 2005, the Board appointed Bentley Jennison as their internal auditors for a period of three years. We undertook a full review of internal audit and their working papers in accordance with International Standard on Auditing 610 and the Code of Audit Practice. This allowed us to conclude that the internal audit service provided to NES was in compliance with the NHS Scotland Internal Audit Standards.

Accordingly, we have placed reliance wherever possible on the work of internal audit. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work in the following areas:

- Corporate governance
- Risk management
- High level financial controls
- Payroll and expenses
- Budgetary control
- Regional reviews

#### **Risk Management**

The Turnbull report *Internal Control: Guidance for Directors on the Combined Code* states that a sound system of internal control depends on a thorough and regular evaluation of the risks faced by the body.

In our 2004/05 management report we noted that NES had made significant progress in developing its risk management arrangements. In 2005/06 this work has continued with the updating and maintenance of corporate and organisational wide risk registers. The work of risk champions has continued and has been supplemented with programmes for their development and training. The

developments in risk management arrangements have been reflected in a revised Risk Management Strategy that will be presented to the Audit Committee for approval in June 2006.

During the year internal audit have reported on risk management and business continuity planning. The report on risk management looked at the approach taken by NES to risk management and how the Board identifies, assesses and manages the risks to the achievement of its objectives. Internal audit found that they could gain substantial assurance that corporate and local risks were adequately managed.

The report on business continuity planning identified the business and IT systems critical to the organisation and the procedures that would allow recovery from a partial or total loss of these systems. The report made five significant recommendations relating to disaster recovery plans and procedures and the lack of contingency planning in place for a major IT disaster.

Resulting actions from the internal audit report have included the drafting of a business continuity plan following on from work undertaken throughout the organisation. Whilst a considerable amount of work has been undertaken in drafting the policy it has not been actively tested nor have key employees been provided with training on how the policy will work. Current plans are that all necessary training and testing will take place by September / October 2006. We are satisfied that these actions will ensure that a sufficient risk management framework is in place at NES.

### **Fraud, Irregularity and Corruption**

To ensure the integrity of public funds, NES has a responsibility to establish arrangements to prevent and detect fraud and other irregularity, including:

- developing, promoting and monitoring compliance with standing orders and financial instructions,
- implementing strategies to prevent and detect fraud and other irregularity; and
- receiving and investigating allegations of breaches of proper standards.

We plan our work so as to provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity. In particular, we focus on specific areas of high risk for potential fraud and irregularity and review the control arrangements in place in these areas.

We are pleased to report that no major issues of concern have arisen with regard to the arrangements in place for the prevention and detection of fraud and irregularity

### **Fraud Partnership Agreement Requirements**

In 2005, NES in common with all other health boards in Scotland, signed a fraud partnership agreement with Counter Fraud Services. As a result of this agreement the fraud policy at NES requires to be updated. We understand that revised SFI's incorporating changes to procurement thresholds are to be presented for approval at the audit committee in June 2006. Work on the fraud strategy will commence thereafter. The Assistant Director of Finance (Corporate Governance) has the responsibility for updating the NES Fraud policy to reflect the requirements of the Fraud Partnership Agreement. We recommend that this updating is completed as a matter of priority.

### **Standards of Conduct, Integrity and Openness**

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the SEHD.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over tendering and awarding contracts, registers of interest and disposal of assets.

We are pleased to report that our audit identified no significant issues of concern in relation to standards of conduct, integrity and openness.

### 3.4 Clinical Governance

The Board considers that the principles of clinical governance cannot be readily applied to NES as the organisation has no contact with, or responsibility for, patients. NHS Quality Improvement Scotland (NHS QIS) produced a report in June 2005 on Clinical Governance and Risk Management Arrangements at NES, which commented on the issue of clinical governance and how this needs to be translated into educational governance and quality assurance. The Board prepared a detailed response to the comments in the NHS QIS report and has taken forward the issues raised during 2005/06.

The Board considers that the concept of educational governance is relevant to NES and in May 2006 the Board approved a framework for educational governance and quality assurance which pulls together all of the processes currently in place throughout the organisation and reviews them for adequacy. In addition, the remit and status of the Educational Quality Assurance Committee was reviewed and a new remit was established for the Educational Governance Committee. This committee will provide assurance to the NES Board on all aspects of the quality assurance of its educational provision.

### 3.5 Good Governance Standard for Public Services

In January 2005 the Independent Commission on Good Governance in Public Services produced the "Good Governance Standard for Public Services" (the Standard). The Standard, intended for use by all public services, builds upon the Nolan Principles by setting out six core principles of good governance. The publication includes a number of questions organisations should ask themselves to assess how they measure up to the Standard.

A key aspect of the standard is that public bodies will provide information on their governance arrangements to the public. This allows their stakeholders to understand, and perhaps challenge, these arrangements. As part of our 2005/06 audit we examined the Board's web site to assess the level of information on governance arrangements made available to the public and other stakeholders. The purpose of this exercise was to determine whether the Board's web site would provide sufficient information to allow members of the public to understand the Board's governance arrangements.

It should be noted that our audit provides a high level view of NES's performance against one key aspect of the good governance guidelines. During the year a paper was presented to the Board to promote awareness of the standard. We understand that the information contained on the NES website is regularly reviewed and we strongly recommend that the Board carry out any future assessment in accordance with the recommendations made by the Independent Commission on Good Governance and ensure that they are applying the six principles of good governance. This assessment should incorporate feedback from a representative sample of stakeholders. The results should be open to the public and, where appropriate should form the basis of an action plan for improvement.

The results of our assessment are provided below and show the level of governance information that is available to the public via the Board's web site. Our assessment can also be used as a measure of the Board's openness and responsiveness to the public and their service users.

Core Principle 1	Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.
<i>The function of governance is to ensure that an organisation or partnership fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an effective, efficient and ethical manner. (The Good Governance Standard for Public Services)</i>	

The priorities, outputs and approach of NES are identified in the five-year Strategic Plan. This plan outlines the Board's objectives and plans across national and local priority areas. It also provides information as to how the public can measure the impact of the Board's activity. We are pleased to note that this document, alongside an annual corporate plan, is available on the Board's website.

In addition we noted that there is a section on the website called *NES: The Basics* which outlines all of the targets that NES have set for themselves in the coming year.

Each year NES produces an Annual Report detailing the Board's performance across a number of key areas. This document is designed to be the key tool used by stakeholders to assess the Board's performance, in partnership with the Board's Financial Statements. We noted that this information is available to stakeholders via the Publications section of the Board's website. We also noted that the annual accounts are not included on the website. We recommend that the website is updated to include the 2005/06 annual report and annual accounts once these documents are available.

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**Core Principle 2**

**Good governance means performing effectively in clearly defined functions and roles**

*Good governance requires all concerned to be clear about the functions of governance and their own roles and responsibilities and those of others, and to behave in ways that are consistent with those roles. (The Good Governance Standard for Public Services)*

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The Board's website identifies the Board members and Executive Team members and includes information about the appointment of these members. However, the Standard identifies as good practice the publication of job descriptions for the Chair, Deputy Chair and Chief Executive to ensure that the public and other service users are aware of the roles and responsibilities within the Board. We noted that this information is not made available to NES stakeholders via the website and we would therefore encourage the Board to consider making this available.

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**Core Principle 3**

**Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour**

*A hallmark of good governance is the development of shared values, which become part of the organisation's culture, underpinning the policy and behaviour throughout the organisation, from the governing body to all staff. These are in addition to compliance with legal requirements on, for example, equal opportunities and anti-discrimination. (The Good Governance Standard for Public Services)*

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The Standard views the seven principles of public life, identified by the Nolan Committee, as the foundations upon which good governance should be built. It also confirms that public bodies should make clear the standards of behaviour that it expects from Board members and staff.

The 8 fundamental principles that form the values of NES are contained in the Board's Corporate Plan and are clearly shown on the website. The website contains no information on how staff are expected to act or on how Nolan's principles for people in public life are put into practice. We recommend that this information is made available on the Board's website to ensure that stakeholders are aware of what standards of behaviour and conduct they should expect when engaging with NHS Board members and staff.

Core Principle 4	Good governance means taking informed, transparent decisions and managing risk
<p><i>Decision making in governance is complex and challenging. It must further the organisation's purpose and strategic direction and be robust in the medium and longer terms. To make such decisions, governors must be well informed.</i></p> <p><i>Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective. (The Good Governance Standard for Public Services)</i></p>	

A register of interests is maintained for Board members and senior staff to ensure the Board and others are aware of real or perceived conflicts of interest and facilitate the exclusion of people with personal interest in influencing the decisions or taking part in that decision. This document is available on the Board's website.

The meetings of the Board are open to the public. The times and venues of forthcoming meetings are provided on the Board's website. Agenda papers for future meetings and minutes of past meetings are also available on the website.

The standard also highlights the importance of risk management in the delivery of public services. We have reviewed the Boards risk management arrangements in section 3.3 of this report. The publication of the annual report and annual accounts on the website, would allow stakeholders to be able to view an assessment of the effectiveness of internal controls.

Core Principle 5	Good governance means developing the capacity and capability of the governing body to be effective
<p><i>Public sector organisations need people with the right skills to direct and control them effectively. Governing bodies should consider the skills that they need for their particular situation. (The Good Governance Standard for Public Services.)</i></p>	

The website discloses the names of all non-executive board members together with background information about their skills and qualifications. However the website does not provide any comprehensive information about executive board members nor the general role of the non-executive members, how they are appointed or how they discharge their duties.

We recommend that NES considers reviewing the information provided regarding the role, membership and background of the NHS Board. This would include details of how the Board is integrated into the structure of NHS Scotland.

Core Principle 6	Good governance means engaging stakeholders and making accountability real
<p><i>Real accountability is concerned not only with reporting on or discussing activities already completed, but also with engaging with stakeholders to understand and respond to their views as the organisation plans and carries out its activities. (The Good Governance Standard for Public Services.)</i></p>	

In addition to being accountable to the public and the SEHD, the Board also has responsibilities to its staff. The Good Governance Standard stresses the need for organisations to have clear policies on when and how it consults staff in decision making. We recommend that the Board consider publishing this information on the website.

### **3.6 Conclusions**

Our overall conclusion is that the Board's corporate governance arrangements are satisfactory. This is consistent with the internal audit report on corporate governance which concluded that NES has an adequate corporate governance framework and the requirements of the SEHD are being met.

We recommend that, a non-executive director with recent and relevant financial experience is recruited to the Board.

We are satisfied that the work of internal audit complied with the NHS Scotland Internal Audit Standards and that NES is continuing to develop adequate arrangements for effective risk management.

No issues of concern have been identified in relation to fraud, irregularity and corruption or standards of conduct, integrity and openness.

The Board needs to be clear on how the concept of clinical governance translates into educational governance and quality assurance principles that are relevant to NES. This is being taken forward in the Board's response to the NHS QIS Clinical Governance and Risk Management standards.

# 4 PERFORMANCE

## 4.1 Performance Management

NES has identified three strategic pillars for its service delivery. These three pillars are: building workforce capacity for service improvement, delivering educational support for national clinical priorities and developing educational infrastructure. Targets have been identified against each of NES's strategic pillars, and sub-themes. The targets reflect the national clinical priorities and focus on:

- Building workforce capacity for service improvement through:
  - service re-design
  - the training of key professionals
  - improved patient care and safety
  - recruitment and retention.
- Support for the National Clinical Priorities:
  - Cancer
  - CHD/Stroke
  - Mental Health
  - Childrens Health
  - Public Health
- Developing educational infrastructure:
  - Physical infrastructure
  - Virtual infrastructure
  - Educational Quality Assurance.

Reports on performance against these targets are submitted to the Board on a quarterly basis detailing progress and performance in relation to all ongoing projects, using a scoring system to indicate the level of achievement and completion of each project against the project timetable and ultimate goal of the project.

Where unsatisfactory progress or performance is identified the relevant Director is required to address this. In addition a performance monitoring meeting is held at the 6 monthly point in the year between each Director, the Chief Executive and Director of Finance and Performance Management at which detailed performance issues are discussed. NES has recognised that work needs to be undertaken within the regions and directorates to ensure that the performance management systems in place are reliable and that accurate performance information is reported to the Board. This work is being initiated in 2006/07.

## 4.2 Relocation

In December 2002 Scottish Ministers announced that NES should review the location of its headquarters under the Executive's policy of dispersal of public sector posts from Edinburgh. An option appraisal was undertaken in November 2003 on the organisation's property requirements. The option appraisal looked at a number of different locations that had been short listed, including the current locations in Edinburgh and a location in Glasgow. The appraisal used both qualitative and quantitative analysis. In the qualitative analysis central Glasgow ranked high due to the prime location, high quality design and building specification and the catchment area of the location to recruit new staff. Central Edinburgh ranked seventh out of the nine locations analysed. This was noted in the report as being due to the high weighting given by the Scottish Executive to socio-economic factors which discriminate against areas with already high numbers of public sector employees.

The quantitative analysis undertaken involved looking at the net present value of various lease options over a 15 year period. Under this analysis remaining in the premises in Edinburgh was found to be the best option, with a move to central Glasgow being ranked ninth out of nine.

When the two types of analysis were combined it was found that the most favoured option was a move to Stirling with the option of remaining in Edinburgh ranked second out of nine.

Co-location of special health boards was then considered in 2004 with NES, NHS Health Scotland, NHS Quality Improvement Scotland and NHS National Services Scotland being considered. The feasibility study undertaken led to a letter from the Scottish Minister for Health to the Chairman on 3 July 2005 instructing the Board that NES should relocate from Edinburgh to the east side of Glasgow by May 2007 and in addition should co-locate with some NHS National Services Scotland posts.

The Central Legal Office have advised NES that the letter from the Scottish Minister requires the Board to consider value for money questions in the context of the Ministerial policy on relocation. The instruction from the Minister is to the Board. The Chief Executive as the accountable officer of NES has a responsibility to obtain value for money in making decisions on behalf of the organisation. We recommend that if the Chief Executive considers that the preferred option does not provide value for money to NES as an organisation he should seek a direction from the Board regarding the implementation of this decision, which would confirm that the Board requires the Chief Executive to implement relocation in the context of the Ministerial policy on relocation. Such a direction should be obtained when the Board has finalised its option appraisal and is required to enter into property commitments.

#### **Outline Business Case**

During 2005/06 NES undertook a review of six property options for relocation in Glasgow and produced an Outline Business Case setting out these possibilities. Of the options available only one would allow the relocation to take place fully by May 2007 as instructed by the Scottish Minister. This was the location that was likely to allow NES to retain the majority of staff and had scored well in weighted risk and benefit analysis undertaken. However, this was the highest cost option and was discounted on the basis that it was too expensive.

From the six possibilities considered a move to 3 Central Quay was held to provide the best value for money option for relocation. Whilst this did record the lowest cost option it will not however be available for occupation until September 2008. 3 Central Quay scored badly in the weighted risks and benefits analysis due to staff concerns over public transport links and personal safety issues. In the staff survey undertaken during 2006 this was the option that the least amount of NES staff would be likely to re-locate to. The OBC was presented to the Board for consideration on 13 April 2006 and recommended relocation to Central Quay. While recognising the concerns of staff regarding public transport, personal safety and amenities, the Board agreed to take a long-term view and approved the OBC. The OBC has now been submitted to the Capital Investment Group of the SEHD.

Whilst the OBC demonstrates that within the context of the Ministerial instruction, value for money would be achieved, it does not comply with the time frame set out by Scottish Ministers.

#### **Staff Issues Surrounding Relocation**

Members of NES staff are in the majority against relocation to Glasgow. A staff survey was undertaken regarding the possible locations and only 18% of NES staff that answered the survey and indicated they were willing to relocate to Glasgow indicated that they would be prepared to move to 3 Central Quay. This response indicates that NES may find it hard to recruit and retain staff when they have relocated.

Unison have confirmed in writing that it will not support the proposed move to Central Quay as it is not the preferred location of their members who responded to the staff survey. *"Unison staff side will not be supporting the inclusion of Central Quay within the OBC, we will take this forward on behalf of our*

*members and will advise the Scottish Executive of our strong opposition to this being taken forward as the preferred option".* The Royal College of Nursing and the Royal College of Midwives have also formally registered their unhappiness regarding the process of staff consultation followed.

The Board requires to ensure that robust risk management arrangements and action plans are in place to manage the relocation process. The development of a Relocation Strategy would assist with this.

### **4.3 Joint Working**

There are a number of bodies which NES must work with to effectively fulfil its remit. These include SEHD, tertiary and Regional Boards, NHS 24, NSS, the Golden Jubilee Hospital, Quality Improvement Scotland, the Scottish Funding Council, the Scottish Qualifications Agency, Royal Colleges in Britain, University Scotland, ATLD and Health Scotland. NES includes representatives of these groups on steering groups as appropriate.

Staff within NES work closely with their health colleagues across Scotland. Examples of this include the Medical Director and Postgraduate Deans at NES who work closely with Health Board Medical Directors. This role is particularly important in relation to service redesign processes and the Modernising Medical Careers agenda. NES also has three Regional Development Directors who link with the Regional planning groups.

Although there is no formal partnership review process in place NES undertakes a stakeholder survey. This survey enables NES to identify areas of good practice within its joint working arrangements and to address any areas of weakness of poor practice highlighted. Quarterly meetings are also held between NES and its sponsoring department to provide updates on performance.

### **4.4 Workforce Management**

A baseline staffing establishment has recently been undertaken by NES in line with SEHD requirements. The staff governance tool, which was approved by the Board in March 2005, is also setting the agenda for future work in this area.

To cascade information to staff throughout the organisation, NES has developed both internal and external newsletters for staff and other stakeholders. A number of key policies have been created to ensure a healthy and safe working environment and complimentary staff training has been undertaken.

#### **Staff Recruitment**

NES requires a business case to be prepared for all new posts within the organisation or for any proposed ICT development. The Board is also revisiting its ICT strategy to identify any areas which can be improved, updated or where efficiency savings can be made.

As previously stated within the report the relocation of NES to Glasgow has resulted in a clear risk that existing staff will be lost to the organisation. The Board is therefore reviewing options such as flexible working times and home working to prevent this loss of staff. NES is also ensuring that any staff vacancies which arise are advertised internally in the first instance to give existing staff the possibility of moving to another regional office.

### **4.5 Information Management**

Information requirements have been identified and established by NES and are supported through the local e-Health strategic plan. NES has a Head IM&T and during 2005/06 have recruited for and appointed an IT security officer.

NES has put in place codes of practice to govern and control data exchanges with other organisations. In addition to this the benefits from the IM&T systems have been identified and quantified for the board.

NES has also identified the funding streams and expenditure budgets which are directly related to e-Health initiatives.

There are still opportunities for improvement and refinement with the NES IM&T Business service delivery. NES must develop and put in place continuity and contingency plans for all critical areas. It is also vital that these plans are tested and reviewed on a regular basis.

## **4.6 Conclusions**

The key challenge to NES is managing the risks associated with the relocation process. NES must not only ensure it achieves value for money or best value within the confines of the Ministerial decision but must also minimise the impact on service provision and ensure that the Board's Corporate Plan is delivered.

NES must consider options for addressing the risk that existing staff will not relocate with the organisation. NES should also consider options for capturing data and staff knowledge thus ensuring if any staff member does not relocate that their skills and knowledge base are retained within the Board.

In our opinion, the Board is establishing adequate arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources. In particular, the establishment of the Performance Management Framework represents a significant development in the Board's systems for quality improvement and assurance.

# 5 FINANCE

It is the responsibility of NES to conduct its financial affairs in a proper manner. As part of our audit we are required to consider the financial standing of the Board, including arrangements for financial planning, budgetary control and financial reporting. It is important that such arrangements are adequate in order to control the organisation's operations and use of resources.

## 5.1 Annual Accounts and Audit Timetable

The deadline for submission of the 2005/06 audited NHS Board accounts to the SEHD is 30 June 2006, one month earlier than in previous years. We are pleased to report that the accounts were approved by the Board of NES and will be submitted to the SEHD and Auditor General for Scotland prior to 30 June 2006.

We identified no material errors during our audit. Adjustments to the financial statements arising from the audit related mainly to changes in disclosure and presentation. We agreed all adjustments with the Director of Finance and Performance Management and the Assistant Director of Finance (Financial Services).

We are grateful to the Director of Finance and Performance Management and her staff for submitting draft accounts and supporting papers of a high standard within the agreed deadlines.

## 5.2 Financial Targets

Health Boards are set three budget levels by the SEHD:

Target	Description
Revenue Resource Limit	Stay within the allocated revenue limit, reflecting spend on ongoing health services.
Capital Resource Limit	Stay within the allocation capital limit, reflecting spend on new capital investment.
Cash Requirement	Stay within a cash management requirement which is a financing requirement to fund the cash consequences of the ongoing operations and net capital investment.

The Revenue Resource Limit and Capital Resource Limit are both financial targets for financial reporting purposes.

We are pleased to note that NES met both of its financial targets for the financial year 2005/06 and also stayed within its budgeted cash requirement as set out below:

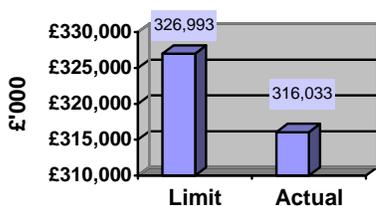


Figure 1 – Performance against Revenue Resource Limit

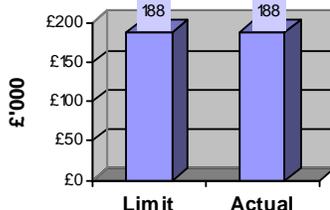


Figure 2 – Performance against Capital Resource Limit

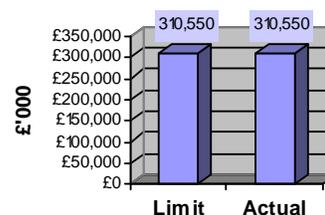


Figure 3 – Performance against Cash Requirement

### 5.3 Analysis of Financial Targets

NES achieved an overall saving of £10,960,000 against its RRL at 31 March 2006. This can be broken down as follows:

#### Analysis of RRL underspend

Element of underspend	£000	£000
In-year underspend relating to planned activities	£2,317	
Additional ring-fenced revenue allocations received late in the year	£1,011	
<b>Total in-year underspend</b>		<b>£3,328</b>
2004/05 underspend brought forward		£7,732
<b>Saving against RRL at 31 March 2006</b>		<b>£10,960</b>

As NHS Boards are only allowed to carry forward up to 1% of their RRL in one year for general purposes in the following year, this would have allowed NES to carry forward only £3.27m. Permission has been sought and granted from the SEHD for specific carry forwards in relation to projects being undertaken by NES totalling £8.221m. As the remaining surplus of £2.74m is within 1% of the RRL this can also be carried forward into 2006/07. The projects for which a carry forward has been agreed are broken down as follows:

#### Analysis of specific carry forwards

	£'000s
Audiology (bursaries for Clinical Placement year)	435
Leadership Management Development Programme	245
Information Governance	40
Supplementary Prescribing	210
Pharmacy NVQs	620
Workforce Design Programme	85
Nursing IT Development Programme	50
Nurse Endoscopists	732
OHPs	283
Dental Action Plan	3,600
Centre for Health Sciences	300
Support for newly qualified nurses in Primary Care	178
Maternity Care Assistants	50
Midwifery leadership	30
Autism Argyll	203
Dental Outreach	400
Anaesthesia practitioners	113
Consultant Nurse development	164
Healthcare Chaplaincy	20
Clinical Effectiveness	140
Scoping Exercise on Children	10
SMMDG Evaluation	16
Pharmacy Research	100
SPR matching Scheme	197
<b>Total</b>	<b><u>8,221</u></b>

## **5.4 In Year Underspend Relating to Planned Activities**

The in-year underspend of £3,328m can be broken down into an underspend relating to planned activities and an underspend due to additional allocations received late in the year for which NES had no plans.

Of the list of specific carry forwards shown above the amount relating to the dental action plan is the largest element. The dental action plan is a long term plan initiated by the SEHD to recruit more dentists. Although the infrastructure and aims are now in place for the new posts it will take time for the full effect of costs to be seen against budget. Current predictions are that the amount received for the plan from SEHD will mean that there will be a cumulative carry forward of £3.5m in 2006/07 as it is unlikely that all the funded costs will be incurred in 2006/07.

The underspend in relation to planned activities has resulted from a slippage in the recruitment of Specialist Registrars throughout the regions as has been noted in previous years. Overall there has been an under spend of £1.3m on training grade vacancies spread across all regions. The total budget for all four regions was £177.883m giving a percentage underspend of 0.7%. The majority of the total underspend on training grade vacancies has been in the West region where there is not only a higher percentage of vacancies, but there is also a higher proportion of part time posts which have been found to be harder to fill.

## **5.5 Financial Implications of Relocation**

The Outline Business Case submitted to the Board in April 2006 was supported by a paper showing the financial implications of the proposed relocation. Three categories of costs were identified:

- Capital costs;
- Non-recurrent staff costs; and
- Recurrent costs.

### **Capital Costs**

Capital costs have been calculated to have a net present cost of approximately £13.5m. NES does not have absolute assurances that these costs will be met by SEHD, although they have been given indications that this will be the case. Should this funding not be available from the SEHD this will impact significantly on NES and their ability to undertake activities in future years. We recommend that as part of the full business case NES gain written assurance that capital costs for the relocation to Glasgow will be met by the SEHD.

### **Non-Recurrent Costs**

NES have identified non-recurrent staff and property costs that are likely to be incurred between 2008/09 and 2011/12 in relation to existing lease payments, redundancy and early retiral costs and excess travel allowances that will be required to be paid to staff under NHS terms and conditions. These are as follows:

### Non-recurrent costs identified

	2008/09	2009/10	2010/11	2011/12
	£'000	£'000	£'000	£'000
Redundancy / early retiral	2,547			
Recruitment / retraining	372			
Excess Travel	212	212	212	212
Existing leases	1,306	589	298	125
Dilapidations	292			277
<b>TOTAL</b>	<b>4,729</b>	<b>801</b>	<b>510</b>	<b>614</b>

The staff costs have been calculated on the basis of responses to staff questionnaires and an assumption that, of the non-responders, 70% would not be prepared to move. Thus there is potential for larger amounts to have to be paid out for redundancy or early retiral should these assumptions be exceeded. Conversely these payments may reduce but the costs for excess travel may increase over the following four years.

As noted in 5.5 above, NES has only a strong indication that the capital costs of the relocation will be met by the SEHD. This also applies to the non-recurrent costs identified above, although, again, there are no absolute assurances.

### Recurrent Costs

In addition to the staff costs identified above, further costs are likely to be incurred by NES from the increased costs of rent and rates in comparison to amounts currently paid in Edinburgh. The new lease arrangements are likely in cash terms to involve a rent-free occupation of 3 Central Quay which would mean that the full cash recurrent costs of the relocation would not be incurred until 2011/12. In The cost comparison is as follows:

#### Recurrent revenue costs

	Baseline Cost £'000	Projected Cost £'000	Difference in Cost £'000	Percentage increase in cost
Rent and Rates	1,349	1,476	127	9%
Other Services and Costs	487	694	207	43%
VAT	248	305	57	23%
Capital Charges	0	625	625	625%
<b>TOTAL</b>	<b>2,084</b>	<b>3,100</b>	<b>1,016</b>	<b>49%</b>

Baseline cost is that which is currently incurred from the two locations in central Edinburgh, as adjusted for inflation to 2011/12. The projected cost is that of 3 Central Quay. While there are increases in all areas, the most significant increase is that of capital charges. Currently NES has very few fixed assets on which capital charges are paid and as such does not pay a significant amount in charges. The OBC assumes that the fit-out of the accommodation and associated capital outlays will amount to £13.5m which will be shown as fixed assets in the NES and NSS accounts and will thus require capital charges to be shared by NES and NSS and to be written off between 7 and 15 years.

## 5.6 Financial Plans

NES has prepared a five year plan and this is updated on a regular basis to take account of new funding initiatives announced by SEHD and new projects undertaken by NES project teams.

As noted in the table below, NES expects to achieve an underspend in 2006/07 of £3.5m, which is above the 1% carry forward limit specified by the SEHD. Through discussion with NES officers we understand that they are likely to approach the SEHD early in 2006/07 to inform them of the projected underspend.

### Projected financial position 2005/06

	Actual		Projected	
	2005/06 £m	2005/06 £m	2006/07 £m	2006/07 £m
Recurring income	311.7		343.4	
Recurring expenditure	<u>(313.1)</u>		<u>(342.5)</u>	
<b>Underlying recurring surplus / (deficit)</b>		<b>(1.4)</b>		<b>0.9</b>
Non-recurring income	0.0		0.0	
Non-recurring expenditure	<u>(5.8)</u>		<u>(11.3)</u>	
Balance of non-recurring	5.8		11.3	
<b>Gap</b>		<b>(5.8)</b>		<b>(11.3)</b>
Other income sources	2.5		1.9	
Non-recurring SEHD income / year end	15.3		11.3	
Corporate savings programme	<u>0.4</u>		<u>0.7</u>	
Total other income		18.2		13.9
<b>Financial surplus / (deficit)</b>		<b>11.0</b>		<b>3.5</b>

## 5.7 Cost Pressures

### Agenda for Change

In 2004/05 NES had an accrual of £83,000 for Agenda for Change pay costs. As the full matching or assimilation process has not been completed as at 31 March 2006, the accrual has been increased to reflect 18 months worth of back pay on Agenda for Change. The staff accrual for 2005/06 has followed the same methodology adopted in 2004/05 with 2% of the staff costs being accrued.

During 2005/06 it has come to light that Clinical Psychology trainees stood to benefit more than other staff that NES from Agenda for Change and a separate calculation was undertaken. This has increased the Agenda for Change accrual by over £1,000,000. The total accrual for Agenda for Change is now £1.3m for which staff directly employed by NES account for £200,000.

## **5.8 Financial Planning, Budgetary Control and Financial Reporting Systems**

We have reviewed the arrangements in place at NES for financial planning and have found them to be satisfactory. Internal audit's High Level Financial Controls Review obtained adequate assurance that there were adequate controls in place that were sufficiently robust to achieve the objectives for the system. Several minor action points were identified during the review, but we are satisfied that this does not demonstrate a significant weakness in control.

Our audit identified no significant weaknesses in the Board's internal financial control systems. In general the systems are well designed and operating effectively. This is consistent with internal audit's budgetary control report, which obtained substantial assurance over the budgetary control systems. One action point was raised regarding the formal sign off of budgets when they have been formalised. We are satisfied that this does not demonstrate a significant weakness in control.

### **Areas of Good Practice**

Our opinion on the Board's financial planning, budgetary control and financial reporting arrangements is consistent with the results of internal audit's assessment of the financial reporting and performance monitoring framework. This identified the following areas of good practice:

- the Finance Report submitted to Board is timely, clear and appropriate to the needs of the Board members;
- there is an agreed timetable for the reporting of financial information which is consistently complied with; and
- users find the information clear, sufficient and appropriate to their needs.

## **5.9 Conclusions**

Our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.

NES has achieved both of its financial targets for 2005/06 and we are satisfied that adequate arrangements are in place for managing the Board's financial position and maintaining its financial health.

# 6 ACTION PLAN

Our final report action plan details the key, priority one control weaknesses and opportunities for improvement that we have identified during 2005/06. These are the issues that we believe need to be brought to the attention of the Board.

We have followed-up the key points from our previous action plans to ensure they have been implemented as agreed. Unless otherwise stated in our report all prior action points raised have been satisfactorily cleared.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

## 6.1 Priority Ratings

The priority rating is intended to assist the Board in assessing the significance of the issues raised and prioritising the action required to address them. The rating structure is summarised as follows:

- Priority 1      High risk, material observations requiring immediate action;
- Priority 2      Medium risk, significant observations requiring reasonably urgent action;
- Priority 3      Low risk, minor observations which require to be brought to the attention of management.

## 6.2 Key Issues Arising from 2005/06 Audit

Title	Issue Identified	Risk and Recommendation	Management Comments
<p><b>Value for money implications of relocation</b></p> <p>Para Ref 4.2</p>	<p>As Accountable Officer for NES the Chief Executive has a duty to secure value for money. There is a concern that the relocation to Glasgow may not constitute value for money.</p>	<p>There is a risk that the relocation to Glasgow is not successful and is later deemed to not provide value for money.</p> <p>In order to safeguard the position of the accountable officer, we recommend that the Board provide a direction to the accountable officer to implement the option which reflects best value for money in the context of Ministerial policy on relocation</p> <p><b>Priority 1</b></p>	<p>We propose to document the context of the decision and the relative responsibilities of the Board and the Accountable Officer clearly through a minute of the Board at the stage at which the Board approves the FBC</p> <p><b>Person Responsible:</b> Chief Executive</p> <p><b>Timetable:</b> at FBC approval</p>
<p><b>Reimbursement of costs of relocation</b></p> <p>Para Ref 5.5</p>	<p>The financial implications of the relocation have been reviewed in section 5.5 of our report. The net present cost of the capital outlay is projected to be £13.5m, non-recurrent staff costs are projected to be £6.6m and additional recurrent revenue costs of £1m per annum are likely following relocation.</p> <p>While NES has received a strong indication that the capital costs will be met by funding from the SEHD, there are no assurances over the non-recurrent or recurrent revenue costs.</p>	<p>Should the funding not be available from the SEHD this will impact significantly on NES and their ability to undertake activities in future years. This will also further influence the decision the Accountable Officer has to take on whether the relocation is value for money.</p> <p>We recommend written assurance from the SEHD is obtained with regard to future funding of relocation costs.</p> <p><b>Priority 1</b></p>	<p>Agreed</p> <p>We expect the OBC process to clarify this.</p> <p><b>Person Responsible:</b> Business case is currently with SEHD and is dependent on their processes.</p> <p><b>Timetable:</b> ASAP</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p><b>Loss of staff due to relocation</b></p> <p>Para Ref 4.5</p>	<p>The relocation of NES to Glasgow has resulted in a clear risk that existing staff will be lost to the organisation. Knowledge and experience could therefore be lost from the organisation.</p>	<p>NES should also consider options for capturing data and staff knowledge thus ensuring that the skills and knowledge bases are retained within the Board</p> <p><b>Priority 1</b></p>	<p>Agreed</p> <p>We are developing a proposal for knowledge harvesting as part of our business continuity planning for relocation</p> <p><b>Person Responsible:</b> Director of Finance</p> <p><b>Timetable:</b> December 2006</p>
<p><b>IM&amp;T Continuity and Contingency Plans</b></p> <p>Para Ref 4.6</p>	<p>Opportunities exist for improvement and refinement within the NES IM&amp;T Business service delivery.</p>	<p>NES must develop and put in place continuity and contingency plans for all critical areas. It is also vital that these plans are tested and reviewed on a regular basis.</p> <p><b>Priority 1</b></p>	<p>Agreed</p> <p><b>Person Responsible:</b> Peter Taylor</p> <p><b>Timetable:</b> All action points to be resolved by October 2006</p>
<p><b>Fraud partnership agreement</b></p> <p>Para Ref 3.3</p>	<p>Since NES has signed its fraud partnership agreement with the CFS it has not updated its fraud policy to take account of this.</p> <p>Work on the updating of the fraud strategy is not planned to commence until the updated standing financial instructions have been approved by the audit committee in July 2006.</p>	<p>The failure of NES to update the fraud policy may give an indication to staff that the prevention and detection of fraud is not important to the organisation.</p> <p>We recommend that plans to update the Fraud Policy are implemented at the earliest possible date</p> <p><b>Priority 2</b></p>	<p>Agreed</p> <p><b>Person Responsible:</b> Director of Finance</p> <p><b>Timetable:</b> December 2006</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p><b>Good governance standard assessment</b></p>	<p>Our review of the NES web site identified a number of areas where insufficient information was available to provide members of the public and other service users with sufficient information to gain an understanding of the Board's governance arrangements.</p> <p>By failing to provide sufficient information to the public there is also a risk of the Board failing to be as open and responsiveness to the public and other service users as it would wish.</p>	<p>NES should review the content of its web site and ensure that sufficient, and up to date information is made available to the public on the Board's governance arrangements. In particular the Board should consider disclosing:</p> <ul style="list-style-type: none"> <li>• Job descriptions for the Chair, Vice Chair and Chief Executive of the Board</li> <li>• Up to date financial and performance information as contained in the annual report</li> </ul> <p><b>Priority 2</b></p>	<p>Agreed</p> <p><b>Person Responsible:</b> Director of Finance</p> <p><b>Timetable:</b> September 2006</p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p><b>VAT Returns</b></p>	<p>All VAT returns are due to HM Revenue and Customs (HMRC) by the end of the month following the end of the VAT period. NES reclaims on a monthly basis and thus returns are also due monthly.</p> <p>Our review of VAT at NES found that returns are not always being submitted on a timely basis to HMRC.</p>	<p>NES currently reclaims VAT from HMRC and the late submission of VAT returns could be reducing their cash flow. If the financial position of NES were to worsen delays in receipt of VAT reclaims may further threaten the financial position.</p> <p>NES currently reclaims VAT from HMRC and as such they will not be charged penalties or interest should the return be late. However, HMRC will take a note of the fact that returns are late. Should NES then ever be in the position that they are paying VAT as opposed to reclaiming VAT they may automatically face a penalty due to the bad history they have accumulated from prior late submissions. This will be especially important during relocation where large VAT amounts are included in the projected costs.</p> <p>We recommend that VAT returns are consistently submitted on a timely basis to HMRC to avoid any future penalties.</p> <p><b>Priority 3</b></p>	<p>Agreed</p> <p><b>Person Responsible:</b> Assistant Director of Finance</p> <p><b>Timetable:</b> Immediate</p>



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