

# Grampian Health Board

**Report on the 2005/6 Audit**

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# Summary

## Introduction

In 2005/6 we looked at the key organisational risks facing NHS Grampian. These included delivering sustainable services, achieving financial balance, managing the workforce, information and management technology and arrangements for the achievement of Best Value and the Scottish Executive's Efficient Government initiative. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our key findings.

## Delivering Sustainable Services

NHS Grampian's Health Plan —*Healthfit*—recognises the need to change the way services are delivered to meet the future needs of the population. The Health Plan is supported by the Change and Innovation Plan, which sets out the approach to improving health in Grampian as well as changing the way health services are provided. This includes projects on unscheduled care, planned care and integrated care. The plan was developed in 2004/5 and work has been ongoing throughout 2005/6 to implement the projects that make up the plan.

NHS Grampian is committed to delivering sustainable services in the long-term. In 2006/7 the Board will spend more than £700 million of revenue funding on health delivery with above inflation rises in the four years beyond that. Further, the Performance Governance Committee has been tasked with monitoring Change and Innovation Programme performance against set targets and milestones and holding officers to account for delivery.

Service redesign and innovation necessitate longer term cost efficiencies being released into the local health system. In the meantime, key operational targets such as Waiting Times and Delayed Discharges still have to be delivered. NHS Grampian continues to make progress in reducing waiting times but waiting times for colorectal cancer remain an area of concern. Delayed discharges have steadily reduced in the last four years although the target for 2005/6 was not met. The elimination of delayed discharges remains a significant challenge for NHS Grampian.



## Financial Position

We have given an unqualified opinion on the financial statements of Grampian Health Board for 2005/6.

The Board's financial performance in 2005/6 was as follows:

**Table 1 - 2005/6 Financial Targets Performance £000s**

<b>Financial Target</b>	<b>Limit as set by SEHD</b>	<b>Actual Out-turn</b>	<b>Variance (Over)/Under</b>
Revenue Resource Limit	652,074	651,618	456
Capital Resource Limit	10,468	10,468	-
Cash Requirement	619,881	619,849	32

*Source – Annual Accounts 2005/6*

At the beginning of the financial year 2005/6, NHS Grampian had a cumulative deficit of £10.8m. Financial plans forecast that this deficit would be reduced by £2.7m to £8.1m by the end of 2005/6. However, due to accelerated asset sales, principally the Woodlands site (£11.3 million), NHS Grampian has been able to repay its cumulative deficit a year ahead of schedule.

The Board continues to rely on non-recurring income/funding to support its revenue position. NHS Grampian's financial recovery plan forecasts that reliance on non-recurring funding will reduce over the next few years. While we are aware that it is unlikely that the use of non-recurring funding can ever be completely eliminated, its use masks the underlying financial position of NHS Grampian. There are also significant challenges for the Board in achieving recurring financial balance in the longer-term not least because of the need to offset cost pressures, from initiatives such as Agenda for Change, Modernising Medical Careers and the drugs bill, through savings from service redesign and Efficient Government.

## Managing the Workforce

NHS Grampian needs to have access to accurate, reliable and timely workforce information to assist in planning for services. The new SWISS system is designed to provide this information. However during 2005/6, there have been a number of delays, relating to national issues, in the full implementation of SWISS. NHS Grampian had suspended the use of its former systems for workforce information pending implementation of SWISS, and was therefore without reliable workforce information throughout the year.

NHS Grampian submitted its Workforce Plan and Pay Modernisation Benefits Delivery Plan to the SEHD on time. The Board has also introduced a number of initiatives, including holding weekend job matching panels, to assimilate all staff onto Agenda for Change pay scales by 31 December 2006. However, NHS Grampian has indicated it is unlikely to implement the Knowledge and Skills Framework component of pay modernisation by the deadline date of 31 March 2007.



## Performance Management

Although there is no statutory duty of Best Value in the NHS, the SEHD issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. As part of our 2005/6 work we carried out a baseline review of Best Value arrangements within NHS Grampian. Overall, NHS Grampian can demonstrate commitment to Best Value and continuous improvement.

The Efficient Government initiative is a five year programme with the aim of attacking waste, bureaucracy and duplication in Scotland's public sector. During 2005/6, the Board's savings targets to achieve financial balance were greater than the percentage targets required by the Efficient Government initiative. More efficient procurement practices alone are anticipated to generate savings totalling £5.624 million in the period 2005/6 to 2007/8.

## Governance

There has been substantial progress in single system Clinical Governance arrangements in NHS Grampian with the introduction of an overarching Clinical Governance Strategy. The Board also receives bi-monthly update letters from the Chair of the Clinical Governance Committee outlining any significant issues considered by the Committee.

NHS Grampian are developing an assurance framework to provide the Board with the assurances it requires that the overall system of control in place at NHS Grampian is operating effectively. A steering group has been formed and has produced an action plan for the continued development of the assurance framework.

Effective business continuity planning helps to reduce an organisation's business risk arising from unexpected disruptions of critical functions. We noted that NHS Grampian has prepared a business continuity policy and developed and tested a continuity plan. The Business Continuity Management (BCM) Group has conducted a business impact analysis to inform the preparation of an eHealth BCM strategy.

We also reviewed the progress made by NHS Grampian in delivering on the actions agreed in the Staff Governance Action Plan. We concluded that the Board has made good progress with 18 (50%) of the 36 agreed actions completed and 14 (39%) partly implemented.

NHS Grampian has made good progress with taking forward Community Health Partnership (CHP) developments. All three CHPs within the Grampian area are moving towards an integrated management structure with local authority partners that will facilitate the delivery of community-based healthcare.



# Introduction

1. This report summarises the findings from our 2005/6 audit of NHS Grampian. The scope of the audit was set out in our Audit Planning Framework, which was submitted to the Audit Committee on 15 December 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.
2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the final year of our current audit appointment and we have been reappointed for a further five years covering the period 2006/7 to 2010/11. 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.
4. A copy of this report will be submitted to the Auditor General and will be available on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Organisational Risks

## Introduction

5. In our audit plan, we identified six main areas of risk for NHS Grampian. 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.

## Delivering Sustainable Services

6. In our audit plan, we identified that a significant risk factor for Grampian Health Board was the ability of the Board to provide appropriate, safe sustainable services in an environment of changing clinical demands. The Kerr report sets out the sustainability challenge facing the NHS in Scotland over the next 25 years. This involves shifting the balance of care from episodic acute care to a more proactive approach in the form of preventative care services based in the community.
7. NHS Grampian's Health Plan —*Healthfit*—recognises the need to change the way services are delivered to meet the future needs of the population. These changes are required to ensure that NHS Grampian '*make best use of available funding and resources*'.
8. The Health Plan is supported by the Change and Innovation Plan. These set out the approach to improving health in Grampian as well as changing the way health services are provided. This includes projects on unscheduled care, planned care and integrated care. Grampian Health Board has devolved responsibility for the development of the Change and Innovation plan to the Service Strategy and Redesign Committee (SSRC). The plan was developed in 2004/5 and work has been ongoing throughout 2005/6 to implement the projects that make up the plan.
9. Operational targets such as Waiting Times and Delayed Discharges still have to be delivered as NHS Grampian is implementing redesign projects. The Board has continued to make progress in reducing waiting times and has achieved the 26 week maximum target for outpatients in full. Performance against cancer targets has shown improvement although waiting times for colorectal cancer remain an area of concern. Delayed discharges have steadily reduced from 365 in 2002 to 154 by the April 2006 census date. The target set for NHS Grampian was that there should be no more than 142 delayed discharges by the April 2006 census date. Elimination of delayed discharges is dependent on system change. This will be achieved through implementation of the Board's change and innovation programme which aims to prevent hospital admission and facilitate discharge.
10. The Performance Governance Committee was tasked with monitoring Change and Innovation Programme performance against set targets and milestones. Our attendance at the Performance Governance Committee confirmed that the Committee operated in an effective manner.



## Achieving Financial Balance

11. We commented on the risk facing the Board in terms of its financial position, with a cumulative deficit of £10.8 million carried forward to 2005/6. In our audit plan we noted the Board's reliance on non-recurring funds, especially asset sales, and the need to achieve financial balance more through efficiency savings from service redesign.
12. At the start of the year the Board had been forecasting a year-end cumulative deficit for 2005/6. The actual outturn for the year showed a cumulative surplus of £456,000 compared to the RRL. The better than forecast position was due to an in-year surplus of £11.23 million which was achieved primarily from non-recurring income/funding, particularly the sale of assets. This allowed for the full repayment of all brought forward cumulative debt a year ahead of schedule.
13. Although NHS Grampian has achieved financial balance in 2005/6, recurring expenditure (£752.680 million) exceeded recurring income (£716.816 million) with an underlying recurring gap of £35.864 million. The forecast for 2006/7 is for this underlying recurring gap to reduce to £21.392 million. NHS Grampian will continue to rely on non-recurring income to support its overall financial position, although the financial recovery plan forecasts that reliance on non-recurring funding will reduce over the next few years. While we are aware that it is unlikely that the use of non-recurring funding can ever be completely eliminated, its use masks the underlying financial position of NHS Grampian. Further, we note that there are significant challenges for NHS Grampian in trying to achieve long-term financial balance. These include, amongst other things, the implementation of initiatives such as Agenda for Change and Modernising Medical Careers and rising cost pressures.
14. We will continue to monitor the implementation of the financial recovery plan during 2006/7 to ensure that NHS Grampian continues to achieve financial balance, without adversely impacting on health services.

***Risk Area 1***

## Managing the Workforce

15. In our 2004/5 annual audit report we commented on the need for NHS Grampian to have access to accurate, reliable and timely workforce information to inform workforce planning and development. The new national SWISS system is designed to provide this information. In our Audit Risk Analysis and Plan document we highlighted the risk of delays in implementing the SWISS system.
16. During 2005/6, there have been a number of delays in the full implementation of SWISS. These have related to national issues, outwith the immediate control of NHS Grampian. In the meantime, NHS Grampian had suspended the use of its former personnel systems for recording workforce information, pending implementation of SWISS, and this led to management being without reliable workforce information throughout the year.

***Risk Area 2***



17. The SEHD have set a revised deadline for all NHS staff to be assimilated onto the new Agenda for Change (AfC) pay scales and for all arrears of pay to be paid by 31 December 2006. NHS Grampian are carrying out a number of initiatives to increase its capacity to deal with assimilation and ensure these deadlines are achieved. These include, for example, running evening and weekend job matching panels. Regular reports on progress in implementing AfC are submitted to the Staff Governance and Performance Governance Committees as well as the Board.
18. A further aspect of AfC is the development of the Knowledge and Skills Framework (KSF). The SEHD have set a deadline of 31 March 2007 for the full implementation of the KSF although NHS Grampian has already indicated that that it is unlikely to achieve this.
19. NHS Grampian has submitted a Workforce Plan and Pay Modernisation Benefits Delivery Plan to the SEHD within the prescribed timescales. We will continue monitor developments in this area as part of our ongoing work on workforce planning.

## **Best Value and Efficient Government**

20. In our audit plan, we identified that Accountable Officers have a duty to ensure that arrangements are in place to secure Best Value. There is no statutory duty of Best Value in the wider public sector. Instead, the Scottish Executive issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. The key finding from our review is that NHS Grampian can demonstrate a commitment to Best Value and continuous improvement. Further details of the work carried out on Best Value arrangements are contained in the performance management section of this report.
21. We carried out an overview of NHS Grampian's management arrangements in relation to the requirements of the Scottish Executive's Efficient Government initiative. This initiative aims to reduce waste, bureaucracy and duplication in Scotland's public sector. Our initial findings, as summarised at paragraphs 48 to 50, will be included in a separate report to management in August. A significant area for improvement is the development of accurate and reliable sickness absence statistics.

## **Information Management and Technology (IM&T)**

22. We noted in our audit plan that the increased use of information technology presents NHS Grampian with new risks. If business continuity plans are not in place NHS Grampian would risk a serious failure of service delivery. The draft findings from our local review of ICT Business Continuity Planning have recently been reported to management as outlined in the Governance Section of this report at paragraphs 64 to 66. We noted a number of good practices but also potential risks including the need to ensure that business continuity plans are developed in a consistent manner throughout NHS Grampian.



23. As part of our IM&T audit work we carried out a high-level review of the Accident & Emergency and Pharmacy Stock Control systems. The main focus of this work was to inform our planning process in future years but we also identified potential risks that management would wish to consider. The specific details of our findings are outlined in the Governance Section of this report.

## Governance

24. We highlighted in our audit plan that NHS Boards need to demonstrate that they have established and maintain effective procedures for identifying, evaluating and managing business risks. A strong risk management framework is even more important in a culture of continuous improvement and in an environment of rapid and major change.
25. NHS Grampian have developed a risk management strategy which clearly sets out the importance of risk management to the delivery of key objectives. It also sets out the responsibilities of staff across NHS Grampian, the supporting organisational arrangements for the identification, assessment and reporting of risks and the steps to be taken to develop and implement mitigating action.
26. To support this NHS Grampian has also developed an assurance framework to assist each of the core governance committees to identify and assess risks that fall within their remit. A short term Assurance Framework Steering Group has been set up to continue the development and integrate key elements of governance arrangements such as performance management, risk management and internal controls assurance. The overall development of the assurance framework is monitored by the Performance Governance Committee.
27. The future model of health care envisaged in the Kerr report and endorsed by *'Delivering for Health'* focuses on integrated, continuous, community-based services rather than hospital-based, episodic care which is geared towards acute conditions. This approach relies heavily on joint working arrangements as a means of delivering services in local communities with Community Health Partnerships (CHPs) taking the lead.
28. NHS Grampian has established three CHPs within its geographical area —Aberdeen City CHP, Aberdeenshire CHP and the Moray CHP—to take forward the *'Delivering for Health'* agenda. We carried out a high-level overview of on the development of CHPs within the Grampian area. It is clear from our review that CHPs are well-established and are working towards closer integration with local authority partners to deliver community-based healthcare services and facilities.



# Financial Statements

## Our Responsibilities

29. 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.
30. 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.

## Overall Conclusion

31. We have given an unqualified opinion on the financial statements of Grampian Health Board for 2005/6.

## The Board's Financial Position

32. The Board is required to work within the resource limits and cash requirement set by the Scottish Executive Health Department (SEHD). NHS Grampian remained within the limits set by the SEHD as shown in the table below.

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**Table 2 - 2005/6 Financial Targets Performance £ 000s**

<b>Financial Target</b>	<b>Limit as set by SEHD</b>	<b>Actual Out-turn</b>	<b>Variance (Over)/Under</b>
Revenue Resource Limit	652,074	651,618	456
Capital Resource Limit	10,468	10,468	-
Cash Requirement	619,881	619,849	32

*Source – Annual Accounts 2005/6*

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33. At the beginning of the financial year 2005/6, NHS Grampian had a cumulative deficit of £10.8m. This was due to the carry forward of overspends of £4.8m from the former Grampian University Hospitals NHS Trust and an in year deficit of £6m in 2004/5. Financial plans forecast that this deficit would be reduced by £2.7m to £8.1m by the end of 2005/6. The audited accounts for 2005/6 showed that the Board achieved an in-year surplus of approximately £11.3 million and a cumulative excess against RRL of £0.5 million as summarised in the table below.

**Table 3- Movement in Cumulative Debt 2005/6**

<b>Cumulative Deficit brought forward into 2005/6</b>	<b>(£10.8)m</b>
In-year surplus	£11.3m
<b>Surplus for year</b>	<b>£0.5m</b>

*Source – Annual Accounts 2005/6*

34. The underlying position at NHS Grampian is masked by the use of non-recurring income and funding. By stripping these out we can show that the Board had an underlying recurring gap for 2005/6 of almost £36m as illustrated in table 4:

**Table 4 – Underlying Recurring Gap 2005/6**

<b>Description</b>	<b>2005/6 £ Million</b>
In year surplus	0.456
Less: Net Non-Recurring Income	(16.335)
Less: Other Income Sources	(19.995)
<b>Underlying Recurring Gap</b>	<b>(35.864)</b>

*Source – Information supplied by NHS Grampian*

35. Finance staff forecast that for 2006/7 the Board will break even but there will still be an underlying recurring gap of approximately £21.4 million. NHS Grampian's financial recovery plan anticipates that the reliance on non-recurring funding will reduce over the next few years although it is unlikely that the use of non-recurring funding can ever be completely eliminated.
36. The Board must ensure that there is strong financial management to support the achievement of the approved financial recovery plan and also to take action when there are fluctuations from the assumptions underlying its achievement. The Board is still exposed to significant risks in achieving financial balance in the face of significant additional recurring cost pressures, and reliance on non recurring funding streams. These increase the risk that the Board will not achieve in-year balance in 2006/7.



## The Issues Arising from the Audit

37. A number of presentational and accounting issues were identified during the audit but these were mostly resolved in discussion with senior financial officials. In our International Standard on Auditing (ISA) 260 letter “Communication of Audit Matters to those charged with Governance” submitted to the Audit Committee we highlighted :

- **Equal Pay claims:** following recent successful equal pay claims from staff at local authorities there is a possibility that similar claims will be raised by Health Sector staff which could represent a contingent liability to NHS Grampian. We were informed by Finance staff that the likelihood of NHS Grampian facing significant challenge was low and unquantifiable at this stage and that a contingent liability did not require to be included in the accounts for 2005/6. We asked the Board to confirm this view in the Letter of Representation.

**Resolution:** disclosure in Letter of Representation.

- **Agenda for change accrual:** we draw specific attention to the accrual of costs for the Agenda for Change programme for the period October 2004 to March 2006. Such an accrual is necessary to reflect the costs properly falling in 2005/6 but as yet not fully determined by the Board. A national methodology was developed to provide a basis for calculating this accrual and this has been applied in 2005/6 by all Boards yielding a figure of some £17.2million for NHS Grampian. We asked the Board for formal assurances, in a letter of representation, that this methodology, in their judgement, best reflects anticipated costs.

**Resolution:** the Board has confirmed that, based on current information, the methodology used best reflects anticipated costs.

- **Negative revaluation reserves:** the asset revaluation exercise carried out in 2003/04 identified a number of assets whose revaluation reserve balance was insufficient to offset the reduction in asset values thereby resulting in some negative revaluation reserve values. Relevant guidance indicates that this is reasonable in the short-term where fluctuations can be attributed to temporary price changes. Were reductions in value to be confirmed as permanent, an appropriate charge would require to be made to the Operating Cost Statement.

**Resolution:** management have reviewed the affected assets and confirm in the Letter of Representation that the initial price changes are still considered temporary in nature.

- **Balances with other Health Boards:** all health boards are required to agree the balances due to and from other NHS Scotland health bodies as part of the financial statements completion. These balances are included in debtors and creditors and separately identified in SFR 30. NHS Grampian were unable to agree the balance claimed to be owed to NHS Lothian. The amount in dispute was originally of the order of £1 million but has now reduced to £326,000. This disputed amount relates to two distinct elements. The first element is a difference of £105,000 for 2005/6 which relates to disputed charges for interventional neuro-radiology which have been queried by NHS Grampian over a number of months. The remaining balance relates to a number of areas going



back to 2004/5 and 2003/4. Information on these amounts was only recently received by NHS Grampian and it has been unable to establish their validity.

**Resolution:** NHS Grampian indicated that they identified all known amounts due to be paid to NHS Lothian and the £326,000 in dispute has been notified to the SEHD. Finance officers did not propose making any changes to the accounts for the amounts in dispute and reference to the position has also been included in the Letter of Representation.

- **VAT costs on clinical academics:** when a clinical academic employed by a University undertakes work on behalf of a health board there is a recharge for their services at zero rated VAT. HM Revenue and Customs have been pursuing a case with the University of Glasgow, with national implications, that this recharge should include VAT at a standard rate. Once the outcome of this case is finalised NHS Grampian could face a potential charge from the University of Aberdeen for backdated VAT in the region of £900,000. NHS Grampian originally accounted for this as an accrual within creditors rather than a provision.

**Resolution:** NHS Grampian have reversed the £900,000 out of creditors and included a specific provision to cover this potential liability.

## Statement on Internal Control

38. The Statement on Internal Control (SIC) provided by the Accountable Officer reflected the main findings from both external and internal audit work. The Statement refers to a number of actions commenced during the year to further enhance internal control, including the continued development and integration of governance arrangements through the work of the Assurance framework Steering Group. The SIC also highlights the Board's commitment to the continuation of its programme of raising risk awareness amongst its entire staff on an ongoing basis.



# Performance Management

## Introduction

39. This section covers our assessment of the way in which NHS Grampian secures value for money in the use of its resources. This year we focussed on three main areas:
- Financial Management;
  - Efficient Government; and
  - Best Value.

## Financial Management

40. Our Audit Risk Analysis and Plan for the current year identified financial management as a key challenge for the Board. In particular, we identified that financial planning needs to be robust to ensure the successful delivery of financial and recovery plans. We agreed with management to carry out a local performance audit study on the Board's financial management arrangements in 2005/6.
41. We have recently concluded our work on Financial Management and will be reporting to management in July. Our key finding was that although NHS Grampian has returned to financial balance in 2005/6, although the underlying financial position highlights the Board's continuing dependence on non-recurring sources of income (refer to previous comments at paragraphs 11 to 14).
42. We also found that the key risk to the Board is to maintain financial balance in the longer-term in the face of recurring cost pressures such as Agenda for Change and Modernising Medical Careers. The Board will need to ensure that cost reductions and savings from other sources, for example, Efficient Government initiatives, service re-design, managing drug costs are achieved to support longer-term financial sustainability. This is a significant challenge given that the Board is already amongst the lowest cost providers of services in the NHS in Scotland.

## Best Value

43. There is no statutory duty of Best Value in the wider public sector outwith local government. Instead, the SEHD issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and, the Best Value and Performance Team within the Scottish Executive were tasked with taking this forward. Revised guidance was issued in April 2006 and included in the Scottish Public Finance Manual.



44. As part of our 2005/6 work we carried out a baseline review of Best Value arrangements within NHS Grampian. The primary aim of the baseline review was to establish the arrangements put in place by management for taking forward the Best Value agenda and demonstrating continuous improvement. In carrying out our review we made use of a number of sources of evidence, primarily:

- the Best Value self-assessment prepared by management (with support from internal audit);
- information collated for our Priorities and Risks Framework document; and
- information gathered from our review of Committee and Board minutes.

45. Overall, NHS Grampian can demonstrate commitment to Best Value and continuous improvement. We found the Board's Best Value arrangements to be either under development or well developed as summarised below.

Best Value Characteristics	Under Development	Well Developed
Commitment and Leadership		√
Sound Governance at a Strategic & Operational Level	√	
Accountability		√
Sound Management of Resources & Contractual Arrangements		√
Responsiveness and Consultation		√
Use of Review and Options Appraisal	√	
Contribution to Sustainable Development	√	
Equal Opportunities Arrangements	√	
Joint Working	√	

46. We also identified a number of good practices in discussion with management, including:

- the establishment of a joint public sector property group and strategy that promotes co-location and integration of service delivery in shared property and land. This encourages flexibility, innovation and better ways of common working as well as providing best value for the public purse;
- the language line and communication initiative which includes the implementation of a comprehensive language line telephone interpretation service. This is a key part of the Board's equal opportunities arrangements and makes services more accessible to the main ethnic community groups within Grampian; and
- implementation of single system working which within the finance function have led to more efficient and streamlined processes as well as significant recurring savings estimated at around £1.3 million per annum.



47. We have also agreed with the Executive Team an action plan of improvements and this will feature in a separate audit report that will be issued in early course. The action plan recognises the need to raise awareness of Best Value principles and embed the culture of continuous performance improvement throughout NHS Grampian.

### **Risk Area 3**

## **Efficient Government Initiative**

48. The Efficient Government initiative is a five year programme with the aim of attacking waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08. The NHS in Scotland is expected to contribute £166 million of cash releasing savings and £173 million of time releasing savings per year.
49. NHS Grampian's financial and performance reporting incorporates Efficient Government targets. During 2005/6, the Board's efficiency requirements to achieve financial balance were greater than the percentage targets required by the Efficient Government initiative. Progress against savings and the wider financial recovery plan were reported on a monthly basis and also submitted to the Performance Governance Committee and the Board.
50. Other aspects of the efficient government initiative, such as procurement are expected to deliver significant savings. Procurement alone is anticipated to generate savings totalling £5.624 million in the period 2005/6 to 2007/8. By contrast, managing absence was not as well developed. A detailed position statement on all public sector organisations in Scotland is being produced by Audit Scotland and will be issued shortly.

## **National Studies**

51. In 2005/6, Audit Scotland carried out three national studies:
- Review of previous year's Staff Governance action plan. Our findings are reported in paragraphs 73 to 75 in the governance section of the report;
  - Tackling Waiting Times in the NHS in Scotland (reported to the Scottish Parliament in February 2006); and
  - Implementing the NHS Consultant Contract in Scotland (reported to the Scottish Parliament in March 2006).



## Tackling Waiting Times in the NHS in Scotland

52. This national study reviewed the performance of the NHS in Scotland against current waiting times targets for elective healthcare. It evaluated whether the current approach produces value for money and assessed whether current strategies are likely to achieve sustained reductions in waiting times.
53. The report concluded that significant progress had been made towards meeting waiting times targets, but that the total number of people waiting for inpatient and day case treatment has changed little in the last two years. It recommended that more efficient use be made of the Golden Jubilee National Hospital.
54. The report highlighted NHS Grampian's initiative in managing orthopaedic referrals. NHS Grampian has established new posts to reduce waiting times for orthopaedic services, including four extended role physiotherapists and seven specialist GPs. These posts are supported by consultant orthopaedic teams in Elgin and Aberdeen. Consultants involved in the scheme have seen significant reductions in the number of patients on their individual waiting lists. In the future, the aim is that consultants will spend less time in outpatient clinics and more time in the operating theatre, which may help further reduce waiting times for inpatients.

## Implementing the NHS Consultant Contract in Scotland

55. This report concluded that there were no clear benefits from the £235 million cost arising from the implementation of the consultant contract. It also highlighted that the new contract offers an opportunity to focus the work of consultants on priority areas, and improve patient care. However, it is not yet being used to its full potential and there is limited evidence of benefits to date. The report also noted that the consultant contract had contributed to cost pressures for boards as the national costing model used by the SEHD contained inaccuracies and it underestimated the financial cost by £171 million, on a national basis, for the first three years.



# Governance

## Introduction

56. This section sets out our main findings arising from our review of the Board's corporate governance as it relates to:

- clinical governance;
- corporate governance ; and
- staff governance.

## Clinical Governance

57. There has been substantial development in single system Clinical Governance arrangements in NHS Grampian with an overarching Clinical Governance Strategy and the development of an assurance framework. A Clinical Governance Committee was established in February 2005 to oversee clinical governance and report directly to the Board. The main duties of the Clinical Governance committee are to provide systems assurance and oversee public health governance. The Board also receives bi-monthly update letters from the Chair of the Clinical Governance Committee outlining any significant issues considered by the Committee.

58. Further, NHS Grampian commissioned its internal auditors to carry out a review of its clinical governance arrangements. A formal report of their findings will be submitted to the Audit Committee shortly. In addition, external review of the Board's clinical governance and risk management arrangements will be carried out by NHSQIS in July 2006.

## Corporate Governance

59. 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 the Board's financial position. We have made comment on the financial position at paragraphs 32 to 36 of this report.

60. We relied on the work of Internal Audit to give us assurance in relation to other governance responsibilities particularly those relating to systems of internal control. Additionally, we looked at 3 further specific areas of risk to see what governance arrangements were in place to manage them:

- Pathfinder Diagnostic Review;
- ICT Business Continuity Planning; and
- Overview of CHP Developments.



## Pathfinder Diagnostic Review

61. As part of our 2005/6 programme of audit work we conducted a 'Pathfinder Diagnostic Review' (PDR) of the EDIS Accident and Emergency system and the JAC Pharmacy Stock Control system. The main aim of the PDR is to provide a high level summary of risks for use in prioritising and informing our audit plans in future years. It can also provide an early indication of potential risk areas which management may wish to consider.
62. Our PDR highlighted a number of areas of good practice including: named officers who are accountable for the day-to-day operation and security of each system; a cost-benefit analysis for the Pharmacy Stock Control system prior to purchase; and a post-implementation review for each NHS Grampian location where the Accident & Emergency system has been introduced.
63. We also identified some risks that management may wish to consider. These include:
- there are no formal user administration procedures in place for the Pharmacy Stock Control system and there is a potential risk that inappropriate access could be assigned to users;
  - there is no formal out-of-hours support for the Accident & Emergency application, thereby increasing the risk of service unavailability if a problem is encountered; and
  - the Pharmacy Stock Control system was procured and implemented with little input from the finance department and this increases the risk that any interface may be incompatible.

## ICT Business Continuity Planning

64. Effective business continuity planning helps to reduce an organisation's business risk arising from unexpected disruptions of critical functions. In 2004/5 we carried out an overview of ICT Business Continuity Planning. We concluded that NHS Grampian were in the process of implementing a number of procedures and a more detailed review would be merited in 2005/6 when we could gauge progress made.
65. Our draft report on ICT Business Continuity Planning was recently submitted to management for comment and agreement of an action plan. We identified a number of good practices including: the preparation of a Business Continuity Policy; the development and testing of continuity plans in a consistent way; and the business impact analysis carried out by the Business Continuity Management Group to inform the preparation of an eHealth BCM strategy.
66. We also identified a number of areas of risk where action is required, including:
- the absence of department of eHealth representation on the Emergency and Contingency Planning Steering Group could lead to business continuity arrangements for information systems not being considered appropriately;



- if business continuity planning training is not developed or regularly attended by staff from all service areas, the preparation of a consistent NHS Grampian business continuity plan may not be achieved; and
- the preparation of an NHS Grampian business continuity plan may not fully recognise and make best use of existing departmental plans.

## Overview of Community Health Partnership Developments

67. In October 2004, the National Health Service Reform (Scotland) Act 2004 required every Health Board to establish Community Health Partnerships (CHPS). CHPs are seen as the key building blocks in the modernisation of the NHS in Scotland through the development of community-based healthcare services and facilities.
68. In November 2005, the Scottish Executive Health Department issued its long-term, strategic programme for healthcare —*Delivering for Health*—which was informed by the report of Professor David Kerr. The strategy is based on an integrated model of health care where CHPs are at the forefront in developing community-based services rather than hospital-based services.
69. We carried out a high-level overview of the progress made on the development of CHPs within the Grampian area. The main aim was to collate baseline information for future performance assessment and to inform the annual overview of the performance of the NHS in Scotland.
70. NHS Grampian established three ‘shadow’ CHPs on 1 April 2004 and these became fully operational on 1 April 2005. The three CHPS cover distinct geographical areas within Grampian i.e. Aberdeen City, Aberdeenshire and Moray. Each CHP has been constituted as a sub-committee of NHS Grampian’s Performance Governance Committee which in turn reports to the Board. Our overview highlighted that the development of CHPs within Grampian is building on long-standing joint working arrangements developed around Joint Futures. The CHPs are at various stages of developing an integrated management structure.
71. The Moray CHP operates a largely integrated structure covering the full range of health and social services while the Aberdeenshire CHP Committee has commissioned a review of structures around priority areas of activity—children’s services, elderly services, mental health, learning disability and public health—with the purpose of exploring ways of integrating decision-making, management and budgets. In the Aberdeen City CHP, single appointments are increasingly being made with reporting lines through the CHP.
72. NHS Grampian is making good progress in developing CHPs but there are still a number of challenges and risks. Some of the keys risks that might impact on the successful implementation of CHPs include:
  - establishing clear governance and accountability arrangements;



- the need to work in partnership with the Acute Sector to manage the transition of the balance care from secondary to primary care; and
- the need to develop meaningful ways of engaging with and integrating dentists, opticians and pharmacists into new ways of service delivery.

#### **Risk Areas 4 and 5**

## **Staff Governance**

73. The NHSScotland Staff Governance Standard introduced the third component of governance, combining with financial and clinical governance to complete the governance framework within which the Board is required to operate. The aim of this standard is to improve the way staff are treated in NHSScotland and to improve accountability for making this happen. Every Board is required to use a Self Assessment Audit Tool (SAAT) and information gained from staff surveys, to develop an action plan to achieve the Standard.
74. This year we identified and assessed the risks associated with Staff Governance as part of the audit planning process and we reviewed the evidence that the previous year's action plan is being delivered.
75. We concluded that NHS Grampian had made good progress in achieving actions agreed last year. We found that 18 (50%) of the 36 agreed actions had been completed and 14 (39%) were partly completed (including 6 actions that are either ongoing or have an agreed completion date beyond the date of this review). Only 4 (11%) actions are outstanding. These included the promotion of the ethos of partnership working through a series of posters, leaflets and other guidance and the development of exit interviews for staff.



# Looking Forward

76. NHS Grampian faces significant challenges in 2006/7 which include:

- the continued achievement of financial balance relies heavily on non-recurring sources of funding and challenging savings targets. Also, affecting the Boards ability to break-even are the increases in cost pressures due to initiatives such as Agenda for Change and Modernising Medical Careers;
- in the Grampian Health Plan, it is recognised that NHS Grampian need to redesign how services are delivered if they are to continue to provide effective health care for the local population;
- key challenge for the three Community Health Partnerships is the need to work in partnership with the Acute Sector to manage effectively the transition of the balance of care from secondary to primary care;
- resourcing and managing the Modernising Medical Career initiative which will have a significant impact in terms of cost and time;
- the challenge of Efficient Government initiative and the need to ensure that the process of continuous improvement becomes part of the day to day business of the Board;
- the need to ensure that NHS Grampian has sufficient resources to deal with the impact of national initiatives such as shared support services;
- the implementation and monitoring of National Tariffs and the use of management information for benchmarking purposes; and
- the Best Value agenda will play an increasingly important role throughout public services in Scotland. NHS Grampian have made good progress thus far, but recognise that much is still to be done to develop the arrangements which will demonstrate commitment to Best Value and continuous improvement.

77. The Board recognises these challenges and is taking steps through its planning processes to address them. We will be keeping a watching brief to ensure that the Board is making progress on these important matters.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	14	NHS Grampian does not achieve financial balance in the longer-term and continues to rely on non-recurring income to support its revenue position.	The Financial Recovery Plan consists of two main elements. 1) The Change and Innovation Programme and 2) Cost Management. The former is led by the Board's Service Strategy and Redesign Committee while the latter is the direct responsibility of the Operational Management Team chaired by the Chief Executive. Each of the projects within the C&I Programme must deliver recurring net savings after reinvestment. Financial profiles for the projects continue to be developed along the lines set out in the Financial Recovery Plan. With regard to Cost Management, a Programme Management Office has been set up, headed by a dedicated Project Director. The main thrust of the initiative focuses on workforce management concentrating on the three key strands of 1) Vacancy Management—recruiting only to key posts where recurring funding is guaranteed 2) Effective workforce utilisation where value for money for all posts is secured and 3) Voluntary Severance where staff who wish to leave the organisation and where it would be beneficial to both parties, are given the means to do so. Monitoring of progress on the Financial Recovery Plan rests ultimately with the Board's Performance Governance Committee.	Chief Executive	Continuous, to maintain financial balance that now exists and gradually reduce reliance on non-recurring means to an acceptable level
2	16	NHS Grampian does not have access to reliable information to inform its workforce planning processes.	The nationally developed SWISS workforce system which is presently undergoing implementation across Scotland, will provide a more robust platform on which to build a sound and consistent database of information. In the meantime, our local Workforce Management Steering Group (WMSG) now reviews on a monthly basis, a suite of information reports specifically	HR Director and Finance Director	Continuous improvement from now with expectation of satisfactory status by end of financial year



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
			designed to support performance management and decision making. The reports are compiled jointly by Finance and HR teams and are continuing development through a robust feedback process between providers and the WMSG.		
3	47	Best Value principles may not become embedded within NHS Grampian.	Best Value principles are fairly well established in NHS Grampian already although some work remains to be done to formalise the relationship between definition and day to day practical procedures carried out as a matter of course. Thereafter, enhancement, development and implementation of those principles which remain less mature are being led by the Directorate of Performance Improvement as a key element of our corporate objectives. Internal Audit has a key role in monitoring implementation progress with the Audit Committee focusing its attention on that part of the annual audit plan.	Director of Performance Improvement	Continuous with significant improvement by the end of the financial year to be measured through the annual audit



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
4	72	Governance and accountability arrangements within CHPs may not be sufficiently developed.	In developing the CHP Scheme of Establishment, it was very evident that, while many aspects of the new arrangements were prescribed by SEHD policy makers, governance and accountability arrangements were left to individual boards to devise and implement. NHS Grampian has invested significant effort in designing arrangements that will avoid stifling the workings of the CHPs while retaining a close watch on governance and accountability. The introduction of other bodies such as local authorities into CHPs has undoubtedly created governance and accountability challenges and this will lead to a slower pace of progress than some would wish for. With CHP committee chairs reporting directly to the chair of the Grampian NHS Board, it is felt that the risk of governance failure is low. Enhancing current arrangements will take considerable time, not least as a result of differing legal frameworks involved.	Director of Finance and Board Secretary	Continuous development with annual review
5	72	CHPs may not develop effective relationships with the Acute Sector and fail to integrate dental, optical and pharmacy services into the new ways of working.	NHS Grampian has been a leader in Scotland in developing single system, integrated ways of working. It developed and implemented the concept of CHPs very much in advance of the national directive to do so and is benefiting from whole system service planning and delivery across the organisation and in conjunction with other agencies. Integrating services is recognised, however, as enormously complex and in some cases very challenging. Working relationships between clinical managers, clinicians and managers continue to develop and improve and the more success from integration that becomes evident to everyone, the faster barriers begin to fall. The Change and Innovation Programme and its development is a key driver in making integration work.	Director of Planning, Chief Executive	Continuous, with quarterly progress review, mainly through the Service Strategy and Redesign Committee and the Performance Governance Committee