

# NHS Grampian

Report on the 2006/07 audit

 AUDIT SCOTLAND

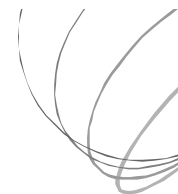
July 2007





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# Executive Summary

## Introduction

Based on our analysis of the risks facing NHS Grampian, in 2006/07 our audit work included: a review of governance arrangements, including the adequacy of internal audit; a review of eFinancials IT controls and system maintenance and completion of Your Business @Risk; a review of the Board's financial position and financial management arrangements; and a review of arrangements for Community Health Partnerships. We audited the financial statements, including a review of the Statement on Internal Control. This report sets out our key findings.

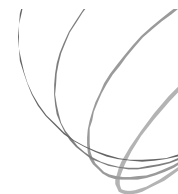
## Financial statements

We have given an unqualified opinion on the financial statements of Grampian Health Board for 2006/07. The Board carried forward a £0.5 million surplus from 2005/06 and planned to break-even in 2006/07. The Board, however, was able to improve on this plan by achieving a cumulative surplus at 31<sup>st</sup> March 2007 of £6.3 million.

Table 1  
Financial Performance

	2006/07 £ Million	2005/06 £ Million
Net operating costs	711.4	677.3
Less capital grants to other bodies	(3.7)	-
Less FHS non-discretionary income	(31.9)	(25.7)
Net resource outturn	675.8	651.6
Revenue Resource Limit (RRL)	682.1	652.1
<b>Saving against RRL</b>	<b>6.3</b>	<b>0.5</b>
Capital grants	3.7	-
Capital expenditure	23.3	16.5
Capital disposals (@ NBV)	(2.4)	(6.0)
Net capital expenditure	24.6	10.5
Capital Resource Limit (CRL)	25.1	10.5
<b>Saving against CRL</b>	<b>0.5</b>	<b>-</b>

Financial balance has been achieved in part this year by managing the position using the sale of assets, retrospective business rates relief and planned vacancy management. The Board also received unexpected levels of earmarked funding from the Scottish Executive in the final month of the financial year. The Board is therefore using non-recurring funding to meet recurring expenditure. While at times this is necessary, the Board should aim to be in recurring balance, and use non-recurring funding only for one-off items of expenditure or specific projects.



The Board achieved cash releasing efficiency savings of £14 million in the year against a target of £11.9 million, most of which is non-recurrent. The 2007/08 budget includes a savings target of £20.7 million, including the £8 million savings brought forward from 2006/07 as they were not achieved on a recurring basis. This is a challenging target given the level of reliance on non-recurring income, £23.2 million in 2006/07.

## Performance management

During the year we carried out a review of arrangements for the management of Community Health Partnerships (CHPs) and related organisations. Our review was primarily focused on financial issues, although it also included work on performance management and corporate governance. Our draft report is currently being considered by management but we note that governance and performance management arrangements are well developed within the CHPs and financial management arrangements are generally robust. We identified that the Joint Framework for Governance and Accountability was agreed back in 2003/04 and requires to be updated.

Performance management arrangements were improved in 2006/07 through the adaptation of the balanced scorecard to meet the requirements of the Scottish Executive's CitiStat methodology, a performance tool which complements other performance arrangements within the Board. The Board is one of five Health Boards participating in an early implementation programme supported by the Scottish Executive Health Department.

## Governance

Grampian Health Board's clinical governance arrangements continued to develop during 2006/07. The Clinical Governance Committee considered reports on a number of significant risk areas including Child Protection, Decontamination and Hospital Acquired Infections. The Committee also considered the implications arising from the NHS Quality Improvement Scotland (QIS) Peer Review reports on Clinical Governance and Risk Management and Maternity Services.

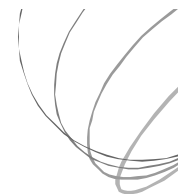
During the year we carried out a review of the Board's Financial Position and Financial Management arrangements. This review, which was carried out across all NHS bodies audited directly by Audit Scotland staff, considered whether: financial planning is integrated with the overall strategic aims of the Board, the budget setting processes are robust; and there is adequate scrutiny of financial plans and budget monitoring undertaken across the Board. We noted:

- there were robust financial planning arrangements in place in NHS Grampian in 2006/07 not least because of the financial discipline put in place in prior years to ensure satisfactory implementation of Financial Recovery Plans;



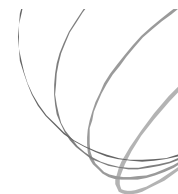
- there are well established arrangements for dissemination and discussion of useful financial management information to budgetholders, and budgetholders are conscious they must take account of in year financial performance when making operational decisions;
- there are well established arrangements for the timely communication of financial performance to those charged with governance: reports are regularly submitted by the Performance Governance Committee to the Board;
- whilst strong financial management arrangements have contributed to NHS Grampian maintaining control of expenditure, management are at all times cognisant of the level of reliance placed on non-recurrent items of income to have achieved a surplus for Financial Year 2006/07;and
- the methodology used by NHS Grampian in the preparation of financial plans for future years is reasonable and transparent. However it is clearly heavily dependent on the management of vacancy levels to achieve financial break-even.

**Audit Scotland**  
**July 2007**



# Introduction

1. This report summarises the findings from our 2006/07 audit of NHS Grampian. The scope of the audit was set out in our Audit Risk Analysis & Plan, which was presented to the Audit Committee on 19 December 2006. 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 number of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. 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. This report will be submitted to the Auditor General for Scotland and will be published on our website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Organisational Risks

## Introduction

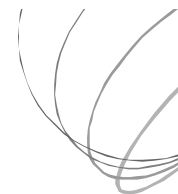
4. In our audit plan, we identified six main areas of risk for NHS Grampian. In this section, we describe the risks and our views on their current status.

## Service sustainability

5. In our audit plan, we commented on the risks relating to NHS Grampian's ability to meet the needs of its patient population now and in the future with limited resources. The Kerr report sets out the sustainability challenge facing the NHS over the next 25 years and NHS Grampian's 2006/07 Health Plan responded to this challenge. The Change and Innovation Programme, which comprises a number of service redesign initiatives, supports the Health Plan.
6. The Board's Internal Auditors highlighted a number of risks concerning the implementation of the Change and Innovation Programme. We agreed that there was a significant risk that the long term sustainability of health services in Grampian could be compromised by the lack of successful implementation of the various projects that make up the Change and Innovation Programme. We also noted the risks to implementation if all relevant stakeholders did not 'buy-in' to the programme.
7. The Boards Internal Auditors undertook an original review of the Change and Innovation Programme in December 2006. The review found that progress had been made over the previous 12 months, in particular the high profile the programme has as the means of delivering the medium and long term developments set out in the Health Plan. The review also highlighted a number of areas for priority in terms of the overall governance, scope, performance management and financial planning of the programme to ensure that there is a clear focus on those projects considered to be critical to the delivery of the major redesign of acute and community based services.
8. Internal Audit have recently carried out a follow up review of progress which found that Finance and Planning teams are working closely to ensure there is an increased level of financial management discipline across the Programme, including consideration of its affordability. A number of areas were also identified for further consideration by management, for example, the need for greater understanding of the overall cost implications of service re-design on existing services to identify the potential release of secondary care resources.

**Risk area 1**





## Financial management

9. In our audit plan, we commented that there were considerable risks to the achievement of the Board's financial plans given the significant cost pressures arising from 'double' running costs of services in transition and the unknown final costs of national initiatives such as Agenda for Change, the Knowledge and Skills Framework and Modernising Medical Careers. The Board's reliance on non recurring sources of funding also posed a significant risk to the Board's financial position.
10. In addressing this we carried out a review of the Board's financial position and financial management arrangements. This area is addressed in the Governance and Financial Statements sections of this report.

## People management

11. In our audit plan we noted the risk that the full impact of Modernising Medical Careers (MMC) and the Knowledge and Skills Framework (KSF) in terms of demands placed on the system for training and development were unknown. There has been considerable concern publicised in the media regarding the current recruitment process for MMC. NHS Grampian is awaiting the outcome of the Review Group established by the Department of Health and the Royal Colleges to look into this which could potentially impact upon workload locally. There is an expectation nationally that KSF will be implemented by March 2008, however we note that NHS Grampian have raised concerns about the reality of this. Progress with the implementation of both MMC and KSF are monitored by the Staff Governance Committee, who provide a report summarising the key issues discussed at each committee meeting to the Board. We will continue to monitor developments in this area.
12. Our plan also recognised that in a period of significant change NHS Grampian faces a number of risks in relation to the retention and recruitment of staff and the morale of staff generally. The Board has published its 2007 Workforce Plan aimed at supporting new ways of working driven by the implementation of the NHS Grampian Health Plan and Change and Innovation Programme. The advancement of workforce planning during 2006/07 has contributed to the development of the NHS Grampian Workforce Planning Action Plan. This identifies key issues NHS Grampian intends to address over the coming years in relation to the development, redesign and planning of the workforce to enable the Board to utilise the workforce effectively in delivering sustainable services in line with *Delivering for Health*.

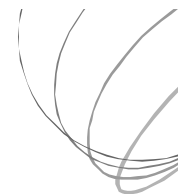
**Risk area 2**



13. We described in paragraphs 5 to 8 above the importance of the Change and Innovation Programme to overall sustainability. Our audit plan noted that one of the key risks in the implementation of the programme was the need to ensure that the benefits arising from the pay modernisation agenda were met to provide the leverage for service changes envisaged by the Change and Innovation Programme. During 2006/07 NHS Grampian has further developed its Pay Modernisation Benefits Delivery Plan which clearly demonstrates how the Change and Innovation Programme is to be supported by the outcomes of pay modernisation. We found that the Staff Governance Committee was closely monitoring the delivery of the Benefits Delivery Plan.
14. We commented on the effect on the morale of staff that the ongoing Shared Support Services Project may have. The original timetable for shared services has been delayed and a revised business case is not now likely to emerge until late 2008. The National Shared Support Services Programme Board now envisages the development of core elements of the initiative by all Boards (the Foundation stage) and is seeking 'Pathfinder' participants to take forward the more complex elements of the programme of shared services.
15. Last year the SEHD set a revised deadline for staff to be assimilated to their new job descriptions and paybands, under Agenda for Change (AfC), of 31 October 2006 and this was then revised to 31 March 2007. Across the NHS in Scotland full implementation of AfC is proving to be a slow and resource consuming process. NHS Grampian has made good progress in meeting the national timescale for the assimilation and payment of substantive staff under AfC. However, not all staff have been assimilated by the revised timescale, including bank, leavers and those whose jobs have changed since October 2004 and arrears for two years have still to be paid to all staff. This is reflected in the accrual in the accounts (£31 million) which represents a net increase of £13.8 million (80%) from the previous year (2005/06 - £17.2 million).

## **Equal pay claims**

16. There have been significant recent developments in the area of equal pay claims. Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. The National Health Service in Scotland has received a number of claims for backdated pay increases, arising from this requirement.
17. As at 31 March 2007 NHS Grampian had received 359 claims and these had been referred for attention to the Central Legal Office. Even taking account of the work which has been undertaken in relation to Agenda for Change, it is still possible that these claims represent a current liability for NHS Grampian; although it is worth noting that we have not been able to obtain from the Central Legal Office any estimate of the potential liability.



18. For 2006/07 we have accepted this position because of its stage of development and as a result of NHS Grampian, including within its annual accounts, a contingent liability note setting out relevant details on the matter. Nevertheless, we would have expected further details to have been available to management beyond those currently received from the Central Legal Office, including a reasonable estimate of the Board's liabilities determined in accordance with financial reporting standards. We would strongly encourage NHS Grampian management, working with the Scottish Executive Health Department, to resolve this matter in advance of compilation of next year's financial statements.

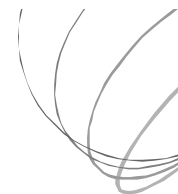
### **Risk Area 3**

## **Information management**

19. 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 Board's Internal Auditors undertook a review of the Business Continuity Planning arrangements in place. The review highlighted a number of control weaknesses including 2 classified as 'high risk'; these related to compliance with the Civil Contingencies Act 2004 and Operational Management of the Business Continuity Planning agenda. Management action to address each of these points has been agreed and will be followed up as part of the 2007/08 internal audit programme.
20. As part of our IM&T audit work we carried out a high-level review of the eFinancials main accounting system. The main focus of this work was to consider whether or not the delays in the completion of the Shared Support Services project were having an impact on the continued development of the system. The specific details of our findings are outlined in the Governance Section of this report.

## **Longer term planning issues**

21. Longer term planning issues which we have identified will have an impact on the Board in future years are as follows:
- Modernising Medical Careers; and
  - national shared support services.
22. We have been monitoring developments in these areas during the 2006/07 audit. In the following paragraphs, we comment on changes that have taken place.

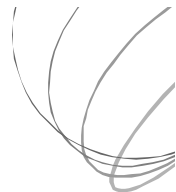


## Modernising Medical Careers

23. Modernising Medical Careers (MMC) is an initiative introduced to reform postgraduate medical training throughout the UK. It aims to provide a focussed training programme which will reduce the time taken for consultants and GPs to become fully trained.
24. While MMC is still at a relatively early stage it is important to highlight that the process presents both short term and long term risks to the performance of the Board:
  - the biggest short term risk is the potentially adverse impact on service delivery resulting from the amount of time required by staff to complete the focussed training programme; and
  - in the longer term there is a potential financial impact for the Board as staff will now be able to qualify more quickly than was previously the case which will mean they are also able to move pay grades more quickly which will create a resultant cost pressure.
25. Work is ongoing regarding the implementation of MMC and this is monitored through regular reports to the Staff Governance Committee. The Board is currently awaiting the outcome of the Review Group established by the Department of Health and the Royal Colleges to look into this and recognises the potential for the outcome to impact upon workload locally.

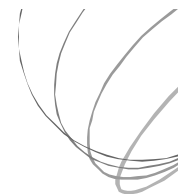
## Shared Services

26. During the period from December 2004 to January 2007, NHS Scotland has been developing proposals for a shared support model for financial services and payroll across the sector. It had been envisaged that this would take the form of a 'hub and spoke' system which delivered financial and related services for all NHS Scotland bodies from two central hubs, with feeder activities at local Board level. A Draft Full Business Case (FBC) was then developed for this model and was made available for consultation at the end of 2006. In responding to the FBC, NHS Boards were supportive of the overall principle of shared services and of the particular proposal to establish a unified core service function. Nevertheless, Boards expressed reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings.
27. The Shared Support Services Project Board met in February 2007 to consider the responses received and concluded that it would not proceed with the Draft Full Business Case in its current form. As a result, the project has now been re-launched as the Shared Support Services Programme. This involves a two-tier approach to build confidence in the new ways of working using common processes and systems, eventually leading to a single services model based on a common finance system. The new approach comprises a Foundation level of involvement, with all Boards developing common ledger arrangements, as well as Pathfinder initiatives to develop the more advanced elements of the proposed development. Expressions of interest are being sought from Boards for Pathfinder status



and a number of workshops have been held to develop potential service solutions. The Programme is currently establishing the costs and benefits (economic and qualitative) of these two tiers of work.

28. This is a highly significant development for the NHS in Scotland which has experienced a major recent change in emphasis. It is estimated that a revised business case for the final organisation of shared services in NHSS will be available during 2008. Full system migration is presently estimated at March 2009.
29. The intention underlying the change of approach is to reduce the risk profile through a distributed programme of projects to be delivered by Boards in support of the common goal. Auditors will continue to monitor the development of these arrangements and the management of related risks.



# Financial Statements

## Our responsibilities

30. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements, and
  - the regularity of the expenditure and receipts.
31. 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

32. We have given an unqualified opinion on the financial statements of Grampian Health Board for 2006/07.

## The Board's financial position

33. The Board is required to work within the resource limits and cash requirement set by the Scottish Executive Health Department. NHS Grampian's performance against these targets is shown in Table 2 below.

*Table 2  
2006/07 Financial Targets Performance £ million*

<b>Financial Target</b>	<b>Target</b>	<b>Actual</b>	<b>Variance</b>
Revenue Resource Limit	682.1	675.8	6.3
Capital Resource Limit	25.1	24.6	0.5
Cash Requirement	650.8	650.7	0.1

34. The Board has achieved a cumulative surplus of £6.3 million. The Board carried forward a surplus of £0.4 million from the previous year and there was in an in-year surplus of £5.9 million.



35. Remaining within the RRL target has depended upon the sale of assets (£9 million), receipt of retrospective business rates rebates (£4.4 million) and vacancy management. NHS Grampian also received unexpected levels of earmarked funding from the Scottish Executive in the final month of the financial year. Where non-recurrent income has been used to support recurring expenditure it will have to be re-provided in future years. Stripping the application of this non-recurring funding out allows us to reflect the underlying recurring funding gap in NHS Grampian for 2006/07, as illustrated below.

*Table 3  
Funding Position 2006/07*

	£ Million	£ Million
Recurring income	796.8	
Recurring expenditure	818.7	
Underlying recurring deficit)		<b>(21.9)</b>
Non-recurring income	23.2	
Non-recurring expenditure	2.5	
Balance of non-recurring		<b>20.7</b>
Difference		<b>(1.2)</b>
Other income sources	0	
Non-recurring SEHD income/year-end support	0.5	
Corporate savings programme	7.0	
Total other income		<b>7.5</b>
Financial surplus		<b>6.3</b>

36. NHS Grampian's 2006/07 revenue budget included a £11.9 million savings target to achieve financial balance. The results for the financial year show a cumulative surplus of £6.3 million against this break-even budget which will be carried forward to 2007/08 to ease financial pressures on operational budgets. This was achieved through a combination of effectively managing resources within tight operational budgets and reliance on non-recurring income, as detailed in paragraph 35 above.

37. The Board's Revenue Budget for 2007/08 includes a total savings target of £20.7 million including some £8 million savings brought forward from 2006/07 as they were not achieved on a recurring basis. This total includes Cash Releasing Efficiency Savings (CRES) of £17.7 million to be met on a recurring basis. This is a challenging target for the Board, even on a non-recurring basis.

38. NHS Grampian will receive additional core funding of £46.4 million in 2007/08, including a 6.74% uplift on the Board's Arbutnott allocation. Most of the additional funding has already been committed to the cost of pay modernisation and making good non-recurring funding sources applied in 2006/07. A number of other areas of cost pressure have been identified within the plan, including the outcome of the Nursing and Midwifery Workforce and Workload review which would have a significant financial



impact for NHS Grampian as it has historically operated with lower levels of nursing cover than comparable health units.

39. One of the most challenging aspects of financial planning is capital investment on the basis that the levels of capital currently being made available are unlikely to continue indefinitely. The planning difficulties arise from the relative imbalance between the availability of capital funding and the level of revenue funding required to support the recurring revenue consequences. There is a risk that capital available will remain unspent.
40. As already mentioned, financial balance has been achieved in part this year by managing the position using the sale of assets and planned vacancy management. The Board is, therefore, using non-recurring funding to help meet recurring expenditure. While at times this is necessary, the Board should aim to be in recurrent balance, and use non-recurring funding only for one-off items of expenditure.

#### Risk area 4

### The issues arising from the audit

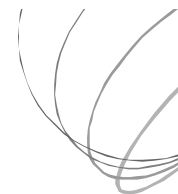
41. We reported the following main issues to the Audit Committee on 28 June 2007:

- **Agenda for change accrual:** we draw specific attention to the accrual of costs for the Agenda for Change programme. Such an accrual is necessary to reflect the costs properly falling in 2006/07 but as yet not fully determined by the Board. In 2005/06 a national methodology was applied by all Boards yielding a figure of some £17.2million for NHS Grampian. For the current year, NHS Grampian have applied a methodology for calculating the accrual which reflects local circumstances yielding a figure of some £31million. The main reason for the increase is that this now includes arrears for two years. We have asked the Board for formal assurances, in a letter of representation, that this methodology, in their judgement, best reflects anticipated costs.

**Resolution:** Management confirmed in the letter of representation that the methodology used best reflects anticipated costs.

- **Equal pay claims:** NHS bodies in England have recently settled equal pay claims. At 31 March 2007 a total of 359 claims have been lodged at the Central Office of the Employment Tribunal against NHS Grampian concerning equal pay. We were informed by Finance staff that NHS Grampian is aware of the potential risk posed by equal pay claims but at this stage it is not possible for the Board to quantify this risk. An unquantifiable contingent liability has been included in the accounts for 2006/07. We have asked the Board to confirm this view in the letter of representation.





**Resolution:** Disclosed in the letter of representation.

- **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 have confirmed in the letter of representation that the initial price changes are still considered temporary in nature.

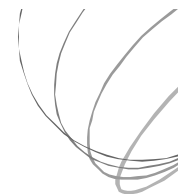
- **Capital accrual grant:** in 2006/07 NHS Grampian awarded a capital grant of £2.15 million to the Maud Village Trust for the development of a community resource centre. An accrual of £900,000 has been included in the financial statements for the initial instalment the Board have agreed to pay once legal structure is in place. However, apart from the offer letter to the Trust, referring to an *'initial instalment in recognition of the substantial amount of work already undertaken on the design and development of the facility and the need to pump prime future stages of the development process'* we have seen no evidence to support the basis for arriving at this figure. In the absence of independent documentary evidence we seek assurances from management that the figure best reflects the costs incurred to date.

**Resolution:** Disclosed in the letter of representation.

- **Investment in TMRI:** NHS Grampian have invested £1,000 for 1,000 ordinary shares in TMRI Ltd, a company established by a partnership of Scottish Enterprise, four Scottish Universities and four Scottish Health Boards. The purpose of TMRI Ltd is to exploit opportunities for research in the field of translational medicine and a collaboration agreement has been signed with Wyeth Pharmaceuticals. As this investment could represent a potential risk for NHS Grampian we seek assurances from management that financial and legal liabilities, including employment liability, remain with Wyeth Pharmaceuticals and that NHS Grampian has no exposure to these risks. We were informed by Finance staff that NHS Grampian will only assume financial and other liabilities where NHS Grampian researchers are involved in research projects. In these circumstances, NHS Grampian's liability is exactly the same as for normal clinical trials covered under CNORIS.

**Resolution:** Disclosed in the letter of representation.

- **Impairments:** the Acute Medical Admissions Unit was completed during 2006/07 and an impairment of some £513,000 has been recognised in the accounts to reflect that the recoverable amount of the asset is lower than its carrying value as at 31 March 2007. The valuation was undertaken by NHS Grampian Finance and Facilities department staff in September 2006 and we have been informed that an independent valuation has now been



requested. In the absence of the latter we seek assurances from management that the basis for arriving at the figure, in their judgement, best reflects anticipated costs.

**Resolution:** Disclosed in the letter of representation.

- **Waste Electronic and Electrical Equipment (WEEE) Regulations:** the WEEE regulations came into force on 1 July 2007 and aim to minimise the impact of electrical and electronic goods on the environment by making producers and/or users responsible for the costs of disposal of such goods. In accordance with the regulations, where their relevant waste arises from assets obtained prior to 13 August 2005, boards will be responsible for the costs of collection, treatment, recovery and environmentally sound disposal of waste equipment disposed of after 1 July 2007, unless they are purchasing a direct replacement. NHS Grampian may have an obligation resulting from the introduction of these regulations. We were informed by Finance staff that NHS Grampian is aware of the potential risk posed by the introduction of the regulations but at this stage it is not possible for the Board to quantify this risk. An unquantifiable contingent liability has been included in the accounts for 2006/07. We have asked the board to confirm this view in the letter of representation.

**Resolution:** Disclosed in the letter of representation.

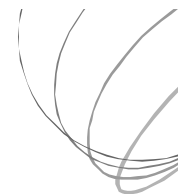
- **Unadjusted errors:** NHS Grampian have disclosed a payment of £53,000, for the Moray Delayed Discharges project, as a capital grant. In our view this expenditure does not meet the requirements of a capital grant. This is an error of disclosure only having nil effect on either the operating cost statement or balance sheet. The error while more than clearly trifling is immaterial to the accounts as a whole. Officers in Finance propose not to adjust the accounts for these errors and we concur on this.

## Statement on internal control

42. The Statement on Internal Control provided by the NHS Grampian Accountable Officer reflected the main findings from both external and internal audit work. The Statement did not include any areas of internal control which needed to be strengthened.

## PFI/PPP schemes

43. NHS Grampian contracted with CHS (Kincardine) Ltd for the provision of nursing home beds and facilities management at the Kincardine Community Hospital in Stonehaven. NHS Grampian has no interest in the buildings on the site but retains ownership of the land. The service contract expires in March 2008 after a term of 10 years. At 31 March 2007, NHS Grampian were committed to pay £1.8m in respect of the final year of the contract. NHS Grampian are currently considering a number of options that arise out of the ending of the current contract.



# Performance Management

## Introduction

44. 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 focused primarily on the management arrangements for Community Health Partnerships (CHPs) and related organisations.

## Community health partnerships

45. As part of our risk based assessment carried out during the initial planning stage of NHS Grampian we identified partnership working, specifically through Community Health Partnerships (CHPs), as an area for review in 2006/07. Our report focuses on the arrangements put in place by NHS Grampian to develop partnership working in relation to health care services. CHPs are new organisations that were set up in April 2006 to develop community based health services in the Board area. The main objectives of our Partnership Working Review were to:

- ascertain and comment on the governance framework for CHPs;
- examine the clarity of accountability and financial decision making arrangements;
- consider the adequacy of performance management arrangements;
- identify examples of good practice that facilitate effective partnership working; and
- identify any barriers to effective partnership working.

46. Our review concentrated on two of the CHPs within the Grampian area, Aberdeenshire CHP and Moray CHP, the Aberdeen City CHP was not part of our review in 2006/07. Overall we found that governance and performance management arrangements are well developed within the CHPs and financial management arrangements are generally robust although there are a number of areas where there is scope for improvement.

47. The main findings from our review were:

### ***Areas of good practice:***

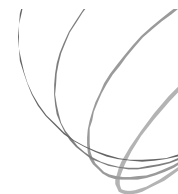
- Moray Community Health and Social Care Partnership (CHSCP) has established a single management structure in conjunction with the Council;
- Moray CHSCP's General Committee has established an Executive Committee as a more efficient and effective approach to overseeing the operation of the Partnership;



- CHP Committee meetings are held in public at Aberdeenshire CHP, with proposals to extend this practice to Moray CHSCP, leading to increased openness and accountability;
- an Integrated Performance Management and Risk Management process has been established by Moray CHSCP, which brings together performance measures from the Moray Council as well as from NHS Grampian to measure progress of joint activity;
- CHP General managers have separate monthly meetings with the NHS Grampian Chief Executive and Director of Finance;
- Assurance Reports and Finance Reports are presented to every NHS Grampian Performance Governance Committee;
- Moray CHSCP have developed a Joint Finance Report to present an overall, comprehensive picture of activity, including Council funding of services, to the Committee;
- Council staff have been given authority to commit NHS Grampian budgets, and authorise the payment of invoices against the health budget, for services they manage within Moray CHSCP;
- a number of CHP capital projects are under development which demonstrate the benefits of joint working;
- the Chairs of the three CHP Committees meet periodically to bring consistency across NHS Grampian and identify issues where a local approach or collaborative approach is best; and
- NHS Grampian has a well developed performance management and reporting framework with a dedicated Director of Performance. The Balanced Scorecard approach is applied at each of the CHPs.

***Areas exposed to risk***

- the Joint Framework for Governance and Accountability was agreed in 2003/04 and requires updating to reflect current circumstances;
- as there are separate budget processes for the Health Board and Council elements of the CHP budget there is a risk that the combined resources do not reflect their overall requirements;
- multiple lines of monitoring and reporting may lead to a lack of transparency/clarity in decision-making;
- CHPs may fail to meet their savings targets due to reliance on non-recurring savings;
- processes for CHPs setting objectives and agreeing baselines against which to measure performance require further development and integration into their business; and
- performance targets and measures need to be developed to meet the specific needs of the CHPs.



## Performance management

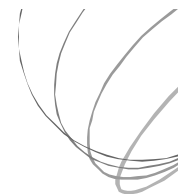
48. The Local Development Plan (LDP) was introduced by the SEHD in 2006/07 and has the objective of further developing performance monitoring and management information. The LDP consolidates monitoring previously submitted in the Local Health Plan, Performance Assessment Framework and Monthly Management Information Returns submitted to the SEHD. The LDP covers the achievement of 28 key targets under the 4 key Ministerial objectives: Health, Efficiency, Access and Treatment. In our audit plan we commented on the risk that data used for performance reporting may not be wholly robust and the risk that NHS Grampian concentrate on achievement of targets in the LDP to the detriment of other areas not covered by the LDP.
49. The Performance Governance Committee is tasked with monitoring all aspects of the performance of NHS Grampian against set targets and milestones. In March 2007, a CitiStat element, to be known as 'Healthstat', was introduced by the Committee. It is anticipated that the adoption of CitiStat principles will allow NHS Grampian to strengthen scrutiny, accountability and follow up, ensure timeous data availability and analysis and promote a culture of continuous performance improvement. The introduction of CitiStat principles will allow NHS Grampian to monitor performance across a wider range of measures than those covered in the LDP.
50. Our attendance at the Performance Governance Committee confirmed that the Committee operated in an effective manner. We will continue to attend meetings of the Performance Governance Committee to monitor the development of this approach.

## NHS tariffs

51. The NHS in Scotland has introduced a National Tariff scheme for cross-boundary activity. In 2005/06 this was limited to two specialties and for 2006/07 this has been extended by a further 8 specialties. The impact for Grampian for 2006/07 was broadly neutral overall except for arrangements with Orkney and Shetland. For these Island Boards SEHD supported a limited financial impact of tariffs in 2006/07. As a result NHS Grampian's additional income to recover costs of service provision to those boards was also limited in year.
52. Work continues nationally on the 2007/08 tariff, both in terms of the methodology and its application. Grampian's financial plans for 2007/08, therefore, do not include any further impact at this stage.

## Quality and Outcomes Framework

53. The Quality Outcomes Framework (QOF) is part of the General Medical Services contract for general practices and provides financial rewards to general practices for the provision of high quality care. It measures achievement against 146 indicators.



54. General Practitioners (GPs) assess their own performance against these criteria. However, to ensure that only genuine, high quality care provision is rewarded, NHS boards are required to verify the validity of the performance declared. There are three main sections to the assurance process within NHS Grampian as follows:

- review of the reports for the QOF visits which have taken place during the year;
- review of reports from any payment verification visits that have been carried out during the year; and
- year end review of the data which has been submitted through the national Quality Monitoring and Achievement System.

## National studies

55. In 2006/07, Audit Scotland published three national studies:

- Informed to Care: Managing IT to deliver information in the NHS in Scotland (November 2006);
- Catering for Patients: A follow-up report (November 2006); and
- Planning ward nursing – legacy or design? (January 2007).

In December 2006 an overview report was published: Overview of the financial performance of the NHS in Scotland, and two publications to assist NHS Boards and their members were published:

- Health and community care bulletin (May 2006), a summary of the key findings from the 2005/06 national studies; and
- How the NHS works: Governance in Community Health Partnerships; a self-assessment tool (May 2006).

## **Informed to Care: managing IT to deliver information in the NHS in Scotland**

56. This national study sought to provide a high-level overview of the national picture at a time when new structures were being put in place across the NHS (unified boards and community health partnerships), new staff contracts are being implemented, there is increasing joint working with other parties, such as local authorities, and there is increasing opportunity for innovation in service delivery and data management with developments in Information Management and Technology (IM&T).

57. The report concluded that 'Delivering for Health', published by the SEHD, signalled a more corporate approach for IM&T, with a shift away from local autonomy for strategic planning and associated decision-making, and that the SEHD recognised the need to review governance and management arrangements for IM&T throughout the NHS and was taking steps to improve them. Nevertheless



there is still the need to develop an overarching information framework or strategy to inform the development of integrated IT solutions for the NHS in Scotland, taking account of all information needs and recent policy initiatives.

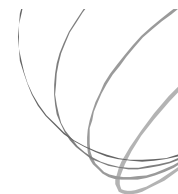
58. The report highlighted that the NHS does not know how much it spends on IM&T overall, but recognises that it falls short of the Wanless target of 3-4% of total health spend and should it seek to do so the SEHD will have to consider the future funding of IM&T developments. It was felt that greater stakeholder engagement is required to ensure all information needs are effectively addressed, and, finally, best practice in identifying, monitoring and reporting expected benefits from IM&T projects has to be adopted consistently across the service.

### **Catering for patients – a follow up report**

59. This follow-up study assessed progress in implementing recommendations made in a baseline report, published November 2003, in the areas of nutrition, quality, patient satisfaction, costs and management of the catering service.
60. The key findings were that catering services are offering an improved level of choice, there are improvements in collating the views of patients, there are improvements in associated management information systems and Boards have reduced the level of wastage.
61. However more work has yet to be done in the areas of: nutritional care of patients, conducting patient satisfaction surveys, and closer management of the level of subsidy for non-patient catering services.

### **Planning ward nursing – legacy or design? – a follow up report**

62. This follow-up study assessed progress made in implementing recommendations made in a baseline report, published 2002, in the areas of: workload and workforce planning, recruitment and retention, the use of bank and agency nurses, information on the quality of nursing care, and information to inform workforce planning and management of resources at ward level.
63. The key finding was that the SEHD has made progress in addressing the recommendations, thus laying the foundations for better ward nursing workload and workforce planning in the future. A wide range of recruitment and retention programmes have been implemented, and dependency on agency nurses (i.e. external to the NHS) has reduced, whilst use of bank nurses (i.e. internal to the NHS) has increased.
64. Areas for further improvement were identified in respect of: management information on workload and workforce; planning establishment to take account of annual leave, average sickness cover, study time, protected time for senior nursing staff, etc; closer management on the use of bank nurses and the development of quality indicators. Management in NHS Grampian have responded to Audit Scotland on these recommendations highlighting that the associated financial implications for NHS Grampian (e.g. increasing establishment to take account of planned absence) are not affordable.



# Governance

## Introduction

65. This section sets out our main findings arising from our review of NHS Grampian's governance arrangements as they relate to:
- clinical governance; and
  - corporate governance.

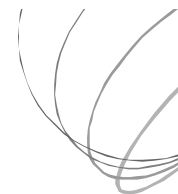
## Clinical governance

66. Grampian Health Board's clinical governance arrangements continued to develop during 2006/07. The Clinical Governance Committee provides the strategic oversight of the systems and procedures for clinical governance arrangements across NHS Grampian. During 2006/07 the Committee considered reports on a number of significant risk areas including Child Protection, Decontamination and Hospital Acquired Infections (HAI).
67. The Committee considered the implications arising from the NHS Quality Improvement Scotland (QIS) Peer Review reports on Clinical Governance and Risk Management Standards and Maternity Services. NHS Grampian have developed an action plan to take forward the recommendations arising from the QIS peer review and progress on its implementation will be monitored by the Committee.
68. Development of governance and management arrangements within NHS Grampian have been ongoing with the establishment on the Workforce Management Steering Group , chaired by the Chief Executive, to provide senior management oversight over pressures on staff resources and costs.

## Corporate governance

69. 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 33 to 40.
70. We relied on the work of Internal Audit to give us assurance in these areas and we looked at three further specific areas of risk to see what governance arrangements were in place to manage them:
- financial position and financial management arrangements;
  - eFinancials – Review of ICT and system maintenance controls; and
  - Your Business@Risk.





## Financial position and financial management arrangements

71. During the year we carried out a review of the Board's financial position and financial management arrangements. This review, which was carried out across all NHS bodies audited directly by Audit Scotland staff, considered whether:

- financial planning is integrated with the overall strategic aims of the Board;
- the budget setting processes are robust; and
- there is adequate scrutiny of financial plans and budget monitoring undertaken across the Board.

72. The significant findings from our audit are summarised below:

- there were robust financial planning arrangements in place in NHS Grampian in 2006/07 not least because of the financial discipline put in place in prior years to ensure satisfactory implementation of Financial Recovery Plans;
- there are well established arrangements for dissemination and discussion of useful financial management information to budgetholders, and budgetholders are conscious they must take account of in year financial performance when making operational decisions;
- there are well established arrangements for the timely communication of financial performance to those charged with governance: reports are regularly submitted by the Performance Governance Committee to the Board;
- whilst strong financial management arrangements have contributed to NHS Grampian maintaining control of expenditure, management are at all times cognisant of the level of reliance placed on non-recurrent items of income to have achieved a surplus for Financial Year 2006/07; and
- the methodology used by NHS Grampian in the preparation of financial plans for future years is reasonable and transparent. However it is clearly heavily dependent on the management of vacancy levels to achieve financial break-even.

73. Our review noted the following areas of good practice:

- the NHS Grampian Revenue Budget Guidance Note to budgetholders clearly sets out how the budget fits into the overall strategic aims and financial position, how the budget is to be developed, how under- and over-spends in one year are to be dealt with in the subsequent budget and how organisational changes will affect budgets. Also included in the Note is a timetable for the development of the budget and responses to a list of 'Frequently Asked Questions'; and



- all budgetholders meet every month with their designated Finance Department contact thus ensuring that variances are quickly highlighted and any corrective action initiated. Budgetholders take responsibility for undertaking corrective action and this is followed up at the next meeting with Finance or sooner if required.

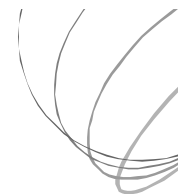
74. We also highlighted the following areas exposed to risk:

- the lack of clear links between the Local Delivery Plan (LDP) and financial plans may lead to the non achievement of targets in terms of both Ministerial objectives and financial planning;
- the use of non-recurring funding masks the underlying financial position of the Board;
- planned levels of vacancy management may have an adverse effect on achievement of targets, such as waiting times, set out in the LDP;
- high levels of unfilled posts as a result of vacancy management may have an adverse impact on clinical governance arrangements;
- efficiency savings required as part of the five year financial plan may not be achievable; and
- future expenditure may be in excess of that budgeted due to an under estimation of price and pay inflation.

## **eFinancials – review of ICT and system maintenance controls**

75. The main aim of this review was to provide a high level summary of risks that could inform and prioritise future audit plans. It provides an early indication of potential risk areas which management can consider. The main findings of our review included:

- NHS Grampian implemented the eFinancials system in November 2003, and since that time only minor and fault fix releases have been applied. Although this has also been in line with the advice of the national shared support services (SSS) programme pending the delivery of a national ledger service there is an increasing risk that the version of eFinancials used by NHS Grampian could become unsupported;
- in August 2006 the eFinancials support team became part of the eHealth directorate. However there is no service agreement in place with the Finance Department. Until this agreement is in place there is a risk that the Finance Department will not receive the service level required; and
- a test of the eFinancials disaster recovery service was conducted during the year. However no formal report detailing the tests performed, issues encountered and resolutions to be implemented (i.e.. lessons learned) was available at the time review.



## Your Business@Risk

76. All NHS Grampian staff were given the opportunity to complete the Your Business @ Risk web-based survey. Examining how well information policies and procedures are embedded is necessary to gain assurance that they are effective. The results of this survey can help organisations to identify areas where there is a need to improve information security and governance arrangements. Details of the survey results will be provided to the eHealth Department in due course and a summary of the key messages will be reported to management. However, as the number of responses have been low, less than 250, the level of assurance that can be provided is limited.

## National Fraud Initiative

77. The National Fraud Initiative (NFI) was extended to cover the National Health Service in Scotland by HDL (2006) 44. The NFI is a biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies and on various financial systems to identify potential fraud, error or anomalies for investigation.

78. Under the NFI, payroll data is downloaded and provided to the Audit Commission's NFI appointed auditor (who process the data for Audit Scotland) who matches this information against other data sets such as housing benefit applicants, local authority pensioners, students, deceased persons, etc. The results are passed back to Boards for further investigation and analysis.

79. Auditors are required to monitor the Board's progress in implementing the National Fraud Initiative and we undertook this as part of our audit. The results of our review were that:

- NHS Grampian have been following the suggested NFI approach to the investigation of matches;
- as of 31 May 2007, NHS Grampian were undertaking detailed investigations of 47 cases. Of these 43 relate to matches on Pensions information and, as per NFI guidance, have been referred to the Scottish Public Pensions Agency for further investigation;
- a significant number of matches were identified of staff who may not have the required visa to work in the UK. Work on further investigation of these cases is hampered by the fact that the Home Office will only verify the visa status of 20 cases per 14 day period; and
- NHS Grampian had not identified any cases of fraud to 31 May 2007.

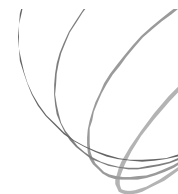


# Looking Forward

80. NHS Grampian faces significant challenges in 2007/08 which include:

- the continued achievement of financial balance relies heavily on non-recurring sources of funding and challenging savings targets. Also, affecting the Board's ability to break-even are the increases in cost pressures due to initiatives such as Modernising Medical Careers;
- the Grampian Health Plan sets a challenging programme of service redesign. These redesign aspirations will carry significant cost pressures especially whilst services are in transition;
- service redesign will require to be implemented only after extensive consultation to ensure public and political acceptability of change;
- changes to the capital accounting regime may result in large capital underspends as the Board can no longer afford the revenue consequences of capital expenditure; and
- resourcing and managing the Modernising Medical Careers and Knowledge and Skill Framework initiatives which will have a significant impact in terms of cost and time.

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



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p>The Change and Innovation Programme comprises a number of constituent projects and initiatives which are highly interdependent. Furthermore, there is a degree of uncertainty relating to the overall cost implications of service redesign.</p> <p>There is a risk that the Change and Innovation Programme will not allow the Board to achieve financial recovery.</p>	<p>The Performance Governance Committee takes responsibility for assurance relating to the programme, receiving regular updates from the Operational Management Team. The latter reviews regularly the action plan on an exception basis, ensuring adequate progress against agreed milestones.</p>	<p>Director of Planning Director of Finance</p>	Ongoing
2	<p>The full impact of MMC as well as a number of other risks facing NHS Grampian in relation to the retention and recruitment of staff may adversely impact on service delivery and patient care.</p>	<p>A dedicated management team made up of clinical and non-clinical managers has responsibility for the detailed implementation of MMC plans. There is very close liaison with NES.</p>	<p>Chief Executive Medical Director</p>	Ongoing
3	<p>NHS Grampian should work with the SEHD to clarify issues and potential costs relating to equal pay claims in the NHS in Scotland.</p> <p>There is a risk that the potential liability is not disclosed appropriately in the financial statements.</p>	<p>Ongoing discussion with the CLO and the SEHD to ensure consistency across Scotland. NHS Grampian must avoid putting consistency at risk by taking unilateral action. If and when any liability is assessed, NHSG will reflect that in its financial statements.</p>	<p>HR Director Director of Finance</p>	Ongoing
4	<p>The Board is using non-recurring income to meet both recurring and non-recurring expenditure.</p> <p>Where possible, the Board should aim to be in financial balance using non-recurring income to meet non-recurring expenditure.</p>	<p>The 2007/08 budget includes reliance on around £6 million of what is considered to be non-recurring support. This is deemed to be very low risk in an annual budget in excess of £800 million.</p>	<p>Director of Finance</p>	Ongoing