Highland Health Board

Report on the 2007/08 Audit

July 2008

Highland Health Board

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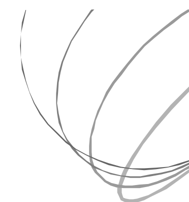


Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by NHS Highland. We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

Financial position

The Board brought forward a £6.829 million surplus from 2006/07 and planned to utilise this to fund non-recurring expenditure commitments in 2007/08. During 2007/08 the Board achieved a cumulative surplus of £5.362 million, after utilising an element of the surplus which was brought forward from 2006/07.

Financial balance has been achieved this year, in part, by underspends in relation to prescribing and slippage in certain service developments. The Board reported savings of £15.8 million in 2007/08 and plans to make a further £16.1 million of savings in 2008/09 and to be in recurring balance by 2011/12. However, it will be challenging to meet this target as savings on this scale may be difficult to achieve. The timescale for achieving recurring balance will be at risk if unplanned items emerge during this time.

The Board's financial statements include significant provisions, particularly in respect of Agenda for Change payments, and do not reflect any potential liability for equal pay claims. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any under-estimate of costs in 2007/08 could have a significant impact in future years.

Financial statements

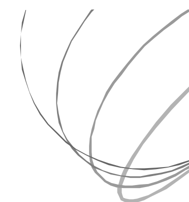
We have given an unqualified opinion on the financial statements of Highland Health Board for 2007/08.

We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Performance

NHS Highland has a well developed framework in place for monitoring and reporting performance. Comprehensive performance reports detailing performance against national and local targets are submitted to the Board on a monthly basis. The board has an established Performance Review Group which uses Citistat principles to monitor and scrutinise performance on a regular basis.

NHS Highland met the majority of specific targets set out in the Local Delivery Plan for 2007/08, with some exceptions, for example breast cancer waiting times and outpatient waiting times over 18 weeks. Full



delivery of zero delayed discharges over six weeks by April 2008 was achieved, although this was particularly challenging and ongoing sustainability will be a potential risk.

Best Value

In 2005/06 we carried out a baseline review of Best Value arrangements across the health service including NHS Highland and an improvement action plan was agreed. A follow-up review was carried out in 2007/08 and we found that the Board had made progress with all the agreed actions. A number of key developments are currently underway to assist in embedding Best Value principles within NHS Highland. We also applied a Best Value, Use of Resources, pilot toolkit, covering Financial Management in 2007/08 and our work in this area is ongoing. We plan to submit our detailed report in August.

Governance

Corporate governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for NHS Highland operated satisfactorily during the year, as reflected in the Statement on Internal Control.

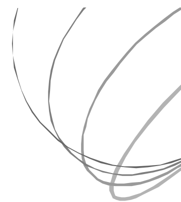
We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

During the year a review of governance arrangements at the board was undertaken by the Vice Chair of the Board. In addition, the Chair of the Board and Chief Executive undertook to review the functioning and effectiveness of the Community Health Partnership (CHP) and Raigmore Governance Committees. As a consequence, an action plan was developed and agreed by the Board in June 2008, with the agreed actions to be implemented during 2008/09.

Clinical governance continued to develop during 2007/08. The Clinical Governance Committee oversaw a number of new developments during the year, including the introduction of Incident Management Policy and Procedures, a Patient Information Policy and Record Keeping Arrangements and Audit Tool. The findings from a number of reviews undertaken by NHS Quality Improvement Scotland (QIS) were also reported to the Clinical Governance Committee which will monitor the implementation of the associated action plans during 2008/09.

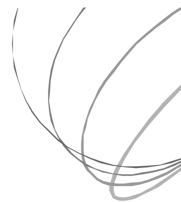
Looking forward

The final part of our report notes some key risk areas for NHS Highland going forward. These are significantly centred around future funding and include the challenges of delivering on waiting time targets and delivering efficiencies, all in a period of expected lower uplifts in allocations. National issues around Equal Pay claims and changes to accounting procedures will all provide challenges in future years.



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

Audit Scotland
July 2008

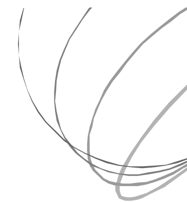


Introduction

1. This report summarises the findings from our 2007/08 audit of NHS Highland. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 18 March 2008. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.

2. We have issued a range of reports this year, and we briefly touch on the key issues 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 Highland Health 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.



Financial Position

4. In this section we summarise key outcomes from our audit of NHS Highland's financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

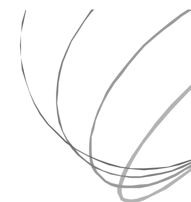
5. We audit the financial statements and give an opinion on:
   - whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question
   - whether they were prepared properly in accordance with relevant legislation, applicable accounting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

6. We also review the Statement on Internal Control by:
   - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
   - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of Highland Health Board for 2007/08.

8. As agreed the unaudited accounts were provided to us on 6 May 2008, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from NHS Highland staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 24 June 2008 as planned. It should be noted that this was achieved against a background of having to incorporate the figures relating to Argyll & Bute from a separate financial ledger.



The Board's financial position

Outturn 2007/08

9. Highland Health Board is required to work within the resource limits and cash requirement set by the Scottish Government. NHS Highland's performance against these targets is shown in Table 1 below.

Table 1

2007/08 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource Limit	522.136	516.774	5.362
Capital Resource Limit	21.071	21.044	0.027
Cash Requirement	540.920	540.920	-

10. The Board brought forward a £6.829 million surplus from 2006/07 and planned to utilise this to fund non-recurring expenditure commitments in 2007/08. During 2007/08 the Board achieved a cumulative surplus of £5.362 million, after utilising an element of the surplus which was brought forward from 2006/07.

11. Attainment of the Revenue Resource Limit (RRL) target has largely been achieved through an underspend in relation to prescribing, slippage in service developments and recognition of expenditure items as capital grant schemes, as appropriate, thus scoring against the Capital Resource Limit (CRL) and not the RRL. However, the cumulative surplus arose from a variety of non-recurring sources and although this will be carried forward into 2008/09, the benefit is non-recurring and will not address the underlying recurring expenditure issues faced by the Board. Non-recurring savings of £8.560 million were identified as part of the corporate savings plan and non-recurring funding allocations of £18.779 million were also received. Where this has been used to support recurring expenditure it will have to be re-provided in future years. Stripping out the application of this non-recurring funding out allows us to reflect the underlying recurring funding gap in NHS Highland for 2007/08, as illustrated in Table 2 below.

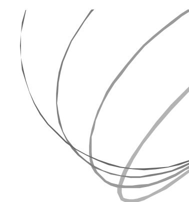


Table 2

Funding Position 2007/08

	£ Million	£ Million
Recurring expenditure	553.163	
Recurring income	571.042	
Recurring savings	7.308	
Underlying recurring deficit		(10.571)
Non-recurring income	18.779	
Non-recurring expenditure	11.406	
Non-recurring savings	8.560	
Non-recurring surplus		15.933
Financial surplus		**5.362**

12. NHS Highland's 2007/08 financial plan included a £15.8 million savings target to achieve financial balance. This total was achieved, as Table 3 below shows.

Table 3

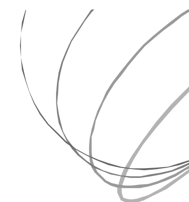
Savings programme 2007/08 £ Million

	Budget	Actual	Variance
Recurring	7.798	7.159	(0.639)
Non-recurring	8.060	8.707	0.647
Total	15.858	15.866	0.008

2008/09 Budget and Beyond

13. There will be tighter financial settlements in 2008/09 and future years with an uplift of 3.15% in 2008/09 compared to 6% in previous years. This will have a significant impact on long term financial planning and the control of non pay costs.

14. The Board's corporate financial plan for 2008/09 includes a savings target of £16.1 million made up of £9.6 million recurrent savings and £6.5 million of non-recurrent savings. This level of savings clearly presents a significant challenge to the Board's performance during 2008/09.



15. The majority of additional funding in 2008/09 will be spent on pay costs and commitments carried forward from 2007/08. The 2008/09 financial plan includes £8.9 million in relation to increased pay costs. Other cost pressures identified within the plan are increased costs of capital and activity growth and prescribing.

16. The board has estimated that savings of £16.6 million, £11.7 million and £5.7 million are required in 2009/10, 2010/11 and 2011/12 respectively. As is the case in most NHS boards, the achievement of the savings targets in 2009/10 and 2010/11 is reliant on the use of non-recurrent savings to a certain extent, although the board aims to be in recurring balance by 2011/12. There are two significant issues which will impact upon these medium term financial plans:

   - at present the SGHD allocates funds to NHS Boards on the basis of the Arbuthnott funding formula. The Arbuthnott methodology has been reviewed by the NHS Scotland National Resource Allocation Committee (NRAC) and implementation of a revised methodology will be developed during 2008/09. Under the revised Arbuthnott funding formula NHS Highland would receive a smaller increase in funding although they have been given assurances that the introduction of the revised formula will be incremental in order to minimise potential financial impact. This therefore presents an additional cost pressure and the Board should plan future budgets on the basis of receipt of minimum allocation uplift

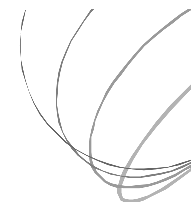
   - in addition, the Board will progress the Collaborative Contracting concept for the internal distribution of resource during 2008/09 in partnership with the SGHD to continue the development of an Integrated Resource Framework (IRF). This will allocate the Board's recurrent resource to all CHPs on the same basis as currently resource is allocated to Argyll and Bute CHP. Other areas, such as Raigmore, Facilities and Corporate service budgets would then be based on CHP capacity plans and service agreements. Therefore, an agreed method of valuing hospital activity is critical for the success of the implementation of an Integrated Resource Framework within NHS Highland.

Risk Areas 1 & 2

Issues arising from the audit

17. As required by auditing standards we reported to the audit committee on 24 June 2008 the main issues arising from our audit of the financial statements. The key issues reported were

18. **Capital grants:** The NHS Scotland Capital Accounting Manual defines capital grants as: *"Unrequited transfer payments which the recipient has to use for the purposes of procuring or improving fixed assets from which the Health Board's residents will benefit in terms of achieving its objectives."* NHS Highland has disclosed £2.983 million as capital grants in the Summary of Revenue Resource Outturn.

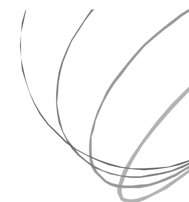


19. Capital grants represent a high profile entry on the face of the operating cost statement and should be planned and monitored in a structured manner throughout the year. All entries should be supported by detailed working papers which clearly support the classification of a capital grant in accordance with the CAM and FRS 15. However, in our experience NHS Highland did not adopt such an approach. Our audit resulted in a number of queries which initially were not readily resolved by management. Working papers were provided to support the Board's accounting treatment of capital grants and following discussions at the audit clearance meeting, it was agreed that a more robust process would be in place during 2008/09.

20. **Agenda for Change accrual:** As at 31 March 2008 £13.5 million was accrued in respect of agenda for change payments. This figure includes estimations based on NHS Highland's assumptions and refers to a range of staff posts and grades. We asked the Board for formal assurances, in a letter of representation, that the accrual, in their judgement, represents a prudent estimate of anticipated costs. Appropriate disclosure was made in the letter of representation.

21. **Pension provision:** NHS Highland has a provision of £3.7m in respect of pensions and similar obligations (including permanent injury benefits) to cover enhanced payments to those members of staff retiring early either on medical or operational grounds. NHS boards should be using the last available Scottish Public Pensions Agency (SPPA) information and reviewing this to identify appropriate estimates to disclose in the accounts as a provision. However, the SPPA has not supplied boards with this information since January 2007. We are aware that some boards have applied uplifts between 0% and 5% to their pension provisions to reflect inflationary cost pressures and potential changes in the number of staff for which enhanced payments are payable during the period which the information from the SPPA has not been available. NHS Highland has advised us that they have not applied an uplift to their pension provision and do not intend to do so until up to date information is made available by the SPPA. We therefore asked the Board for formal assurances, in the letter of representation that the provision represents a prudent estimate of anticipated costs. Appropriate disclosure was made in the letter of representation.

22. **Equal pay claims:** NHS Trusts in England have settled equal pay claims for employees in traditionally female roles and similar claims have now been received by Boards in Scotland. As at 31 March 2008, NHS bodies had received some 12,000 claims and these had been referred for attention to the Central Legal Office. It is possible that these claims represent a current liability for NHS Boards generally. By the end of March 2008, NHS Highland had received 225 claims under the Equal Pay Act. As a minimum for 2007/08 there should be disclosure within the Contingent Liabilities note to the accounts. An unquantified contingent liability is included in the accounts and reference was made in the letter of representation.



23. **Accruals:** During our testing of income and expenditure accruals in relation to the Argyll & Bute CHP element of the financial statements, it appeared that a more rigorous approach was used to identify expenditure accruals than that used to identify income accruals. In this regard, we identified a VAT refund of £188,000 that had not been accrued within the income disclosed in the financial statements. In addition, we are of the view that some of the documentation provided initially in support of the accruals made needed further improvement. The VAT refund of £188,000 is now accounted for within the financial statements. Following discussions at the audit clearance meeting, it was agreed that a more robust process for the identification of income and expenditure accruals would be in place for 2008/09.

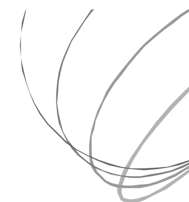
Prior year audit issue

24. **Raigmore Laundry Building:** NHS Highland has a finance lease for a laundry building at Raigmore Hospital which became operational in 2000. The lease covers a twenty five year period. The previous external auditors noted in their management letter that the Board was not accounting for this lease correctly, in accordance with SSAP 21 or the NHS Scotland Capital Accounting Manual.

25. The Board's accounting treatment during 2006/07 differed from the accounting policy adopted for other finance leases. Consequently, in 2006/07 the Operating Cost Statement was undercharged by a cumulative £314,000 since the facility became operational. In 2006/07 we highlighted the fact that if the current accounting treatment was not amended, the error would peak at £592,000 in 2017, before returning to zero at the end of contract in 2026. In 2007/08 NHS Highland amended its accounting treatment to fully comply with SSAP 21 and as a result made adjustments to correct the cumulative undercharge to the Operating Cost Statement.

Equal Pay Claims

26. 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 taken forward by the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. In the UK the Equal Pay Act 1970 is seen as fulfilling Britain's obligations in relation to equal pay. The National Health Service in Scotland has received a number of claims for equal pay in which additional back pay is sought, arising from the requirement for equal pay. The NHS Central Legal Office (CLO) is instructed by the Management Steering Group of the NHSScotland and co-ordinates the legal response of NHSScotland to this issue.



27. For 2006/07, we accepted that no estimate of the potential liability for these claims could be identified because of the stage of development and as a result of the inclusion of a contingent liability within the NHS Highland financial statements. We strongly encouraged NHS Highland management, working with the Scottish Government Health Directorates and other NHS Boards, to resolve this matter in advance of compilation of the 2007/08 financial statements.

28. The CLO has co-ordinated the legal response to all claims and has attended Tribunal Hearings at which discussion about procedural matters has taken place. The CLO affirms that the cases in Scotland are at too early a stage to allow any assessment of financial risk to be included in the financial statements.

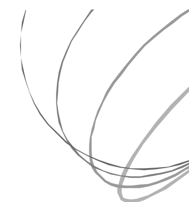
29. A number of issues contribute to this uncertainty, these include;

    - certain recent applications incorporate a challenge the Agenda for Change system, stating that it is, in itself, discriminatory and perpetuates discrimination. This allegation is made in terms of section 77 of the Sex Discrimination Act an seeks to bring all those who were signatories to the Agenda for Change Final Agreement into the proceedings, including Unison and GMB. This allegation of discrimination needs to be legally tested
    - claimants also seek to identify whether or not the Scottish Government or Health Boards is/are responsible for all the claimants' terms and conditions relating to pay. This is often referred to as the "single source issue". If this issue is actively pursued by the claimants, then it will require to be legally tested.

30. We note the CLO's current view of the stage the cases have reached but strongly encourage NHS Highland's management, working with the Scottish Government Health Directorates and other NHS Boards, to form a view of the potential liabilities as soon as practicable taking into account the progress of cases in Scotland and in England.

Regularity

31. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Performance Management

32. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

33. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

34. This section covers our assessment of the way in which NHS Highland secures value for money in the use of its resources. This year we focused primarily on the Board's use of financial resources, with particular reference to corporate and service planning.

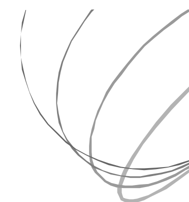
Performance Management

35. NHS Highland currently has a framework in place for monitoring and reporting performance. Comprehensive performance reports detailing performance against national and local targets are submitted to the Board on a monthly basis. In addition, the board has established a Performance Review Group which uses Citistat principles to monitor and scrutinise performance on a regular basis. This group is attended by key executives from the board including the Chair, Chief Executive and Chief Operating Officer. The purpose of this group is to ensure that the Corporate Management Team actively examine the operational performance of the board. Performance against HEAT targets is communicated to stakeholders within the board's annual report.

36. The Local Delivery Plan (LDP) is the key agreement between the NHS Board and the SGHD that describes and demonstrates how the Board will deliver improvements against the 4 key ministerial objectives of Health, Efficiency, Access and Treatment (HEAT). Delivery of the Ministerial objectives is determined by improved performance against 31 key performance measures. These measures also feature in the board's own Corporate Balanced Scorecard.

37. In terms of the HEAT targets, the board was successful in achieving the majority of key access targets by the December 2007 deadline, including no patient waiting longer than eighteen weeks for inpatient, day case treatment or first outpatient appointment. However, at the end of March 2008, the board was reporting failure against a small number of targets, including breast cancer waiting times and outpatient waiting times over eighteen weeks.

Risk Area 3



38. In addition, the target for no patient delayed discharge from hospital in excess of six weeks by April 2008 has been achieved. This is a good example of joint working and co-operation across organisations in the public sector. This target has been particularly challenging and ongoing sustainability will remain the focus for 2008/09.

Best Value developments

39. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.

40. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.

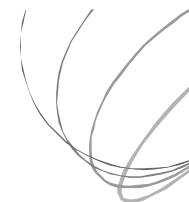
41. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.

42. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.

43. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a number of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.

44. The first of these toolkits, which covers Financial Management, was piloted in NHS Highland during 2007/08. The review sought to establish the Board's position in relation to:

    - financial governance and leadership
    - financial and service planning
    - finance for decision-making
    - financial monitoring and control
    - financial reporting.



45. Our work in this area is ongoing, although we have established that the Board's arrangements in this area are soundly based. We plan to submit our detailed report in August, drawing upon examples of good practice across the NHS in Scotland.

46. In 2005/06 we carried out a baseline review of Best Value arrangements across the health service including NHS Highland. The baseline review was built around the then Scottish Executive's nine best value principles – commitment and leadership, accountability, responsiveness and consultation, joint working, sound governance, sound management of resources, use of review and option appraisal and equal opportunities arrangements. The review noted that NHS Highland's arrangements were 'well developed' for one out of the nine principles with the remainder 'under development' or 'planned'.

47. In 2007/08, we reviewed the baseline information to ascertain what arrangements NHS Highland have put in place to take forward the best value agenda and demonstrate continuous improvement. We are presently collating information for this update and will report our findings shortly, although our initial findings are that NHS Highland has made substantial progress in each of the nine best value principles.

National Studies

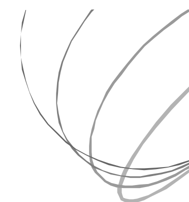
48. Audit Scotland published 4 national study reports relevant to NHS Highland and the key findings from these are summarised in the paragraphs which follow.

A Review of free personal and nursing care

49. This report evaluated the robustness of financial planning, monitoring and reporting arrangements for free personal and nursing care, examined the current costs and funding allocations for free personal and nursing care for councils and identified the financial impact on older people, the Scottish Government and councils.

50. The report recommended that the Scottish Government and councils should continue to work together as a matter of urgency to clarify current ambiguities with the policy and should agree a national eligibility framework which defines risks and priority levels to ensure transparency in access to care for older people.

51. The report also recommended that councils should work with local health partners to evaluate the longer-term consequences of reducing domestic home care services, such as cleaning, shopping and laundry services.



Managing Long Term Conditions

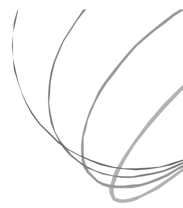
52. The study examined services for adults with long term conditions generally, focussing on two conditions in particular i.e. chronic obstructive pulmonary disease and epilepsy.

53. Some of the key recommendations were:
    - that the SGHD, NHS boards and local authorities should collect better information on activity, costs and quality of services for long term conditions to support the development of community services
    - the SGHD, NHS boards and local authorities should evaluate different ways of providing services to ensure cost effectiveness and share good practice
    - NHS boards should take a more strategic role to ensure better working between CHPs and the acute sector to support the development and resourcing of community services
    - the SGHD and NHS boards should agree targets to support the development of community-based services
    - NHS boards and local authorities, through CHPs, should ensure comprehensive information is given to patients about their condition, and the health and social care services available, at the time of diagnosis.

Primary care out-of-hours services

54. This study reviewed changes to the delivery of primary care out-of-hours services. We looked at national and local planning for out of-hours care; how much it costs the NHS; and how the current delivery of out-of-hours services affects patients and GPs.

55. The key messages are:
    - over 95% of GP practices have chosen to opt out of providing 24-hour care to their patients, with responsibility passing to NHS boards. This has been a major challenge for NHS boards but they have managed to sustain services for patients. The opt-out offers an opportunity for NHS boards to change the way services are delivered and to improve patient care, although this will take time to be used to its full potential
    - most of the funding for new out-of-hours services comes from NHS boards' budgets. This has added to cost pressures for NHS boards, particularly in rural areas where they have had to meet a greater percentage of the costs. The cost to NHS boards in 2006/07 was approximately £67.93 million
    - the overall impact on patient care of GPs opting out of out of-hours services is not clear as it has been introduced alongside other changes. Due to the lack of national data available it is difficult to assess whether patients are benefiting, however, over 80% of patients are satisfied with the service they received. GPs are positive about being able to opt out and 88% of GPs are relieved to no longer have 24-hour responsibility for patients.



Overseas staff in the NHS-pre-employment checks

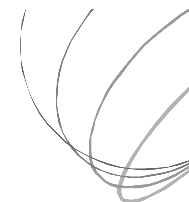
56. This study was undertaken as a consequence of the security incidents in London and Glasgow in June 2007 which allegedly involved staff working in the NHS, including the Royal Alexandria Hospital. Following these incidents the Cabinet Secretary for Health and Wellbeing asked for the Auditor General to carry out an examination of whether pre-employment screening of overseas staff working in the NHS in Scotland was in line with the relevant guidelines.

57. The Auditor General published his report in late November 2007 and the key messages were:

    - the NHS in Scotland does not have an accurate picture of the number of overseas staff employed
    - boards reported 1,161 overseas staff in NHS employment across Scotland at September 2007. However this is likely to be an underestimate as boards had difficulty identifying staff here on indefinite leave to remain. Of the overseas staff identified, boards estimated that 89 per cent of these were doctors or nurses
    - in the five sample boards where more detailed work on compliance with pre-employment checks for overseas staff was carried out, boards had similar procedures and there was evidence of high compliance with procedures in the sample of personnel records reviewed.

58. In December 2007 the Scottish Government produced guidance on the recruitment of staff, including the additional procedures that must be followed when recruiting overseas staff. This guidance sets out the minimum requirements for NHS employers and implementation of the guidance is a requirement of the Staff Governance standard.

59. As NHS Highland was not one of the five sample boards reviewed in 2007, we carried out this study as part of our 2007/08 audit work at the board and our findings were reported separately. Overall, we noted inconsistencies between medical staff files and non-medical staff files. Medical staff files are held centrally and were all found to be complete and appropriately structured with a completed checklist as evidence that prescribed pre-employment checks had been carried out. However, non-medical files, which are held within departments, were unstructured with little evidence of the checks carried out.



Governance

Overview of arrangements

60. This section sets out our main findings arising from our review of NHS Highland's governance arrangements. This year we reviewed:

- key systems of internal control
- internal audit
- aspects of information and communications technology (ICT).

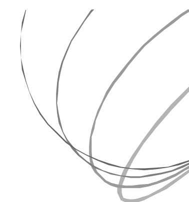
61. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 9-12). Our overall conclusion is that arrangements within NHS Highland are sound and have operated through 2007/08.

Corporate Governance

62. During the year a review of governance arrangements at the board was undertaken by the Vice Chair of the Board. In addition, the Chair of the Board and Chief Executive undertook to review the functioning and effectiveness of the CHP and Raigmore Governance Committees. As a consequence, an action plan was developed which the Board has agreed to implement during 2008/09. Some of the actions agreed by the Board included:

- to end the differentiation between Strategy and Performance meetings of the Board and that the Board will meet six times a year
- that the Performance Review Group be established as a sub-committee of the Board
- to increase in the number of CHP and Raigmore Hospital Committee meetings from five to six meetings per year, held in public and with the aim of increasing public participation
- to ensure members of CHP and Raigmore Hospital Committees are fully supported to undertake their role; and to improve the reporting of these committees to the Board
- to introduce annual event, to be attended by all Board, CHP and Raigmore Hospital Committee members
- to improve the support provided to all Board members.

We will continue to monitor developments in this area.



Systems of internal control

63. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2007/08, Deloitte, the Board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness on the systems of internal control.

64. As part of our audit we reviewed the high level controls in a number of NHS Highland systems that impact on the financial statements. This audit work covered a number of areas including cash and bank, payroll, accounts payable, accounts receivable, fixed assets, general ledger, stores and procurement. In addition, we also reviewed the board's procedures in relation to the tender waiver register. Our overall conclusion was that NHS Highland has adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.

Statement on internal control

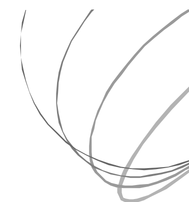
65. The Statement on Internal Control provided by NHS Highland's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out NHS Highland's approach to this.

Internal Audit

66. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2007/08 audit we assessed whether we could place reliance on NHS Highland's internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2007/08, as we anticipated in our annual audit plan.

Clinical governance

67. NHS Highland's clinical governance arrangements continued to develop during 2007/08. The Clinical Governance Committee oversaw a number of new developments during the year, including the following:
    - Incident Management Policy and Procedures.
    - Patient Information Policy.
    - Record Keeping Arrangements and Audit Tool.



68. In March 2007, NHS Quality Improvement Scotland (QIS) undertook a review of NHS Highland's compliance with the NHS Clinical Governance and Risk Management Standards. The final report was issued in July 2007 which indicated that NHS Highland had achieved a score of 8 (out of a possible 12) across all three standards. Specific areas for improvement were identified and an action plan was developed the progress of which is regularly monitored by the Clinical Governance Committee.

69. In September 2007, QIS also reviewed NHS Highland's compliance with the Blood Transfusion Standards and initial feedback from QIS noted some areas of good practice as well as areas for improvement which are being taken forward through the Hospital Transfusion Committee. In addition, in January 2008 QIS reviewed NHS Highland's compliance with the Asthma Services for Children and Young People Clinical Standards. Initial feedback identified strengths and areas for improvement which are being taken forward by a sub-group of the Children's Services Network.

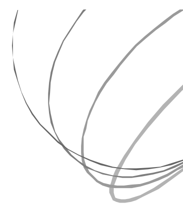
70. Clinical governance arrangements are embedded throughout the organisation. NHS Highland operates clinical governance and risk management groups in each of the four CHPs and also in Raigmore Hospital and corporate services department. Plans for 2008/09 include inviting members of these committees to attend the Clinical Governance Committee to report on their progress. This is a positive step that will enable to the Committee to better understand developments across the organisation.

71. Clinical and corporate governance arrangements have been given due prominence during the year and the annual reports on these aspects of performance were presented to the Board to ensure they were subject to appropriate challenge and scrutiny.

People management

72. The successful delivery of many local and national initiatives is dependent on staff capacity, capability and competency. NHS Highland needs access to accurate, reliable and timely workforce information for effective workforce planning. NHS Highland does not have its own dedicated electronic human resources system; instead it uses the national SWISS HR system and its own payroll system for detailed HR information. There is a risk that any inaccuracies inherent in these arrangements would adversely affect the board's HR management information and decision making processes. In order to provide assurances regarding the validity of this information, we carried out an exercise to establish the accuracy of data held on the SWISS HR system. Our findings were reported separately during the year, although no significant issues were identified.

73. The board's Local Delivery Plan (LDP) for 2008/09 includes a target to ensure that all employees covered by Agenda for Change have an agreed Knowledge and Skills Framework (KSF) personal development plan by March 2009. Some progress has been made with the implementation of KSF during the year, with 1,879 KSF outlines covering 56% of staff submitted by the end of January 2008.



The LDP also highlights staff turnover and other national and local priorities impacting on resources as being the main risks affecting the board's ability to achieve the March 2009 target.

Risk Area 4

74. The main focus remains ensuring all staff are assimilated on the new Agenda for Change payscales and that any grading reviews are concluded. The board, like many others in Scotland, did not achieve the national Agenda for Change targets for assimilating staff and paying outstanding back pay by the end of December 2006. The majority of employees have now been assimilated and payroll staff are working to pay arrears during 2008, although the residual issue of appeals still remains to be addressed. During the year internal audit assessed the action taken to address the risks identified by the board in relation to Agenda for Change. No significant control issues were identified.

75. As with other health boards in Scotland, NHS Highland faces a challenge in achieving the sickness absence target of 4% by March 2009. The current sickness absence rate for the Board is 4.9%. The board has an absence management policy in place and continues to work in maximising staff attendance.

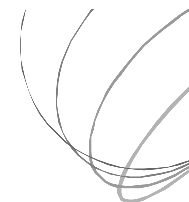
Risk Area 5

Partnership working

76. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. The Board has undertaken significant work in partnership with local authorities in establishing Community Health Partnerships (CHPs) to provide care and public health services in a local setting to meet the needs of the local population.

77. In 2006/07 we carried out a review of partnership working specifically in relation to CHPs. The review identified that CHPs were in the early stages of development and in 2007/08 we monitored progress in this area. We will continue to follow up developments in this area.

78. In our audit plan we identified that IT compatibility and security issues may affect the launch of the Multi-Agency Store (MAS) on 1 April 2008. We have noted that the Scottish Government deadline for child protection messaging and electronic single shared assessment has been put back to April 2009. The Scottish Government's development of adaptors is ongoing. NHS Highland's solution needs to be area wide and requires compatibility with Argyll & Bute and Highland Councils. The specific requirements continue to be discussed with the provider and the views of community nursing staff have been captured.



Service redesign and sustainability

79. Our audit plan drew attention to the fact that main challenges facing NHS Highland continue to relate to the rurality and remoteness of the board's geographical area which impact upon the ability of the board to deliver efficient and effective services, e.g. the provision of an out of hours service and the optimal use of assets. Operational targets such as waiting times and delayed discharges must continue to be achieved at the same time as addressing these challenges.

80. We noted that NHS Highland has continued to manage service delivery issues as well as achieving the majority of their operational targets. In addition, service redesign has contributed to the overall performance of the Board in deriving savings and efficiencies from its activities. This affects a range of both clinical and support functions. Examples include Fluroscan treatment without the requirement of an operating theatre, an integrated emergency care service, text messaging service for diabetes patients and local cataract surgery. Also, the introduction of the NHS National Logistics Service replaced the need for Boards across Scotland to hold stocks of general consumable items.

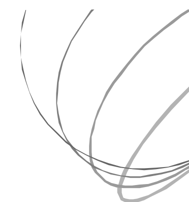
Prevention and detection of fraud and irregularities

81. NHS Highland has in place a number of measures to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and supporting policies and procedures. The board has a formal programme of internal audit work, which, although not designed specifically to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.

NFI in Scotland

82. During 2007/08, we continued to monitor the Board's participation in the 2006/07 National Fraud Initiative (NFI). This exercise is undertaken as part of the audit of the participating bodies. NFI brings together data from health bodies, councils, police, fire and rescue boards and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.

83. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Health bodies did not identify a significant part of these savings, as they are principally responsible for payroll matches, however the inclusion of health bodies in the process was worthwhile. Health employees were linked with several payroll irregularities, including a significant payroll fraud involving working while on sick leave at another body. Health employees were also linked with more than 90 cases of Housing Benefit fraud or overpayment. Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.



84. In May 2008 Audit Scotland released its report *National Fraud Initiative in Scotland 2006/07.* A full copy of the report is available on Audit Scotland's website www.audit-scotland.gov.uk. The report highlighted a range of areas where prevention and detection of fraud had been enhanced.

85. The report also noted that while the majority of participating bodies performed their role satisfactorily, reported performance was not as good in the following areas:

- about a quarter of participants could have planned better for NFI, demonstrated more commitment to the exercise or started work on their matches more promptly

- bodies should review their approach to selecting matches for investigation. Better use could have been made of the web based application.

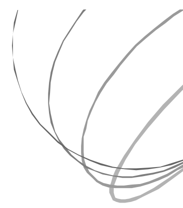
86. We reported, in 2006/07, that NHS Highland established key contacts and nominated other contacts in personnel and payroll at an early stage and that following receipt of the data matches, an action plan was created for each type of match. We continued to monitor the board's progress with NFI as part of the 2007/08 audit. We continued to monitor the board's progress with NFI as part of the 2007/08 audit. Adequate progress has been made to date in following up the NFI output and all necessary investigative work was completed within the required timescales. NHS Highland did not identify any cases of fraud as part of the exercise.

87. Looking forward, Audit Scotland is working to widen the scope of the NFI in line with the rest of the UK. Public bodies will provide information again in October this year as part of their 2008/09 audits with the output expected in early 2009. We shall continue to monitor NHS Highland's progress.

Information and Communication Technology

88. Information security remains an area that requires continuing focus by the Board. During the year the Board has created an Information Governance Committee to direct implementation and advise the Board on the status of compliance with Information Governance Standards published by NHS National Services Scotland. The Information Governance Committee reports to the eHealth Steering Group and circulate minutes of their quarterly meetings to the Clinical Governance Committee. The first annual report was presented to the eHealth Steering Group in June 2008. The Committee continues to monitor progress in the implementation of the structures and procedures as set out in the board's Information Governance Policy.

89. Public sector organisations are increasingly dependent upon the implementation of new and improved information systems to achieve business efficiencies and demonstrate revenue savings. Both the Scottish Government Health Directorate (SGHD) and Audit Scotland have stated that effective programme and project management is essential to the success of the national eHealth programme.



90. The board continues to invest significantly in information management and technology (IM&T) systems and eHealth initiatives that are necessary to deliver local healthcare services, in order to implement its eHealth strategy. The benefit from the investment depends on the effective management and co-ordination of the implementation of these new systems. Responsibility for reporting progress of the delivery of the programme, as set out in the strategy, rests within eHealth Services, which act as the eHealth programme office for NHS Highland. As part of our 2007/08 audit we reviewed the techniques used by the programme office to achieve timely progress reporting and programme delivery and it was noted that:

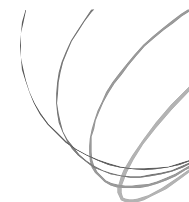
    - the NHS Highland eHealth Implementation service was established in 2005 when eHealth Services was created and early in 2008, the structure was changed in line with the national move towards a programme management office

    - NHS Highland has tailored a project methodology for local use, appropriately scalable for use in significant and smaller projects alike. Standard forms provide a ready framework for control and information that facilitates effective project management

    - reporting on monitoring is focused mainly on significant projects and the smaller projects might drop under the radar and not be subject to an appropriate level of monitoring and control.

91. We concluded that NHS Highland has a well developed project management framework in place that will provide a good platform to extend the programme management function and increase the focus on benefits realisation and risk management according to national developments. We are currently finalising our report which will be issued shortly.

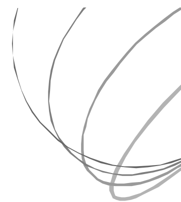
92. Our audit plan noted that the board had recognised the increasing reliance placed on IM&T systems and the consequent risk to the delivery of healthcare in the event of an IM&T service disruption and that management were reviewing the board’s formal business continuity arrangements. We noted that formal contingency planning continues to be developed across NHS Highland.



Looking Forward

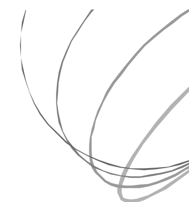
93. NHS Highland faces a number of challenges in 2008/09, which include:

- **18 Week Referral to Treatment Target** – The Scottish Government have agreed that from December 2011 a patient's maximum waiting time from referral, by a GP, to treatment will be no longer than 18 weeks. NHS Boards will require significant developments within the four strategic elements (Service Transformation and Redesign, Planning, Information and Performance Management) to achieve this standard. There is a significant risk that management capacity and expertise may be insufficient to deal with both the strategic elements required to deliver the 18 week standard and delivery of services currently required by patients.
- **Equal pay –** The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Highland has received some 225 of the 12,000 claims received nationally on this matter. NHS Highland management, working with the Scottish Government Health Directorates and other NHS Boards, will require to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.
- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. A detailed timetable and list of requirements is awaited from the Scottish Government. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how NHS Highland is addressing this developing area as part of the 2008/09 audit.



- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for NHS Highland is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives. In addition, NHS Highland would receive a smaller increase in its allocation under the proposed NRAC funding model, compared to the existing methodology. This presents an additional cost pressure and the board should plan future budgets on the basis of receipt of the minimum allocation uplift.
- **Multi-Agency Store** – The Scottish Government deadline for child protection messaging and electronic single shared assessment has been put back to April 2009. The Scottish Government's development of adaptors is ongoing. NHS Highland's solution needs to be area wide and requires compatibility with Argyll & Bute and Highland Councils.
- **Best Value** – The concept of Best Value is seen as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year. NHS Highland will wish to respond to this important initiative as it develops.
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies' procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. Following the publication of an interim report in April 2008, the Scottish Government published their final report and recommendations in June 2008. We will monitor NHS Highland's response to the review and action taken as part of our 2008/09 audit.
- **National developments** – With the election of a new Scottish Government in 2007, there are a range of national developments coming into operation or being piloted, including the use of independent scrutiny arrangements for major planned service changes and the introduction of elected members on NHS Boards. NHS Highland will be required to respond to this developing agenda.

94. 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	The level of future funding received may impact upon the board's ability to achieve future savings targets and be in recurrent balance by 2011/12.	The Board's Financial Plans reflect the reduced level of funding likely to be available in future years, and the Savings Plans are based around these assumptions.	Director of Finance	Dec 08
2	The implementation of an integrated resource framework may not be robust and negatively impact upon future financial plans.	The Board is approaching IRF in a planned and systematic way to provide an alternative method of resource distribution between Operational Units, and will only move to implementation with appropriate safeguards.	Chief Operating Officer and Director of Finance	March 09
3	The board may fail to address current underperformance against HEAT targets.	Performance against HEAT targets is specifically monitored by the Performance Review Sub Committee and any projected failure to deliver is appropriately actioned and followed up.	Chief Exec and Chief Operating Officer	Ongoing
4	Agreed KSF personal development plans may not be in place for relevant staff by March 2009.	These are under preparation, with oversight by a KSF Implementation Team and, like other HEAT Targets, are subject to monitoring by the Performance Review Sub Committee.	Director of HR	March 2009
5	The board may fail meet the national target of 4% for sickness absence by 31 March 2009.	The Board has a strategy to deliver the sickness absence target by March 2009 and, like all HEAT Targets, this is monitored by the Performance Review Sub Committee.	Director of HR	March 2009