

# NHS National Services Scotland

Report on the 2007/08 Audit

 AUDIT SCOTLAND

July 2008



# NHS National Services Scotland

**Report on the 2007/08 Audit**

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# Executive Summary

## Introduction

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

## Financial position

NHS NSS carried forward a £1.7 million surplus from 2006/07 and planned to fully utilise this in 2007/08. However, NSS was able to improve on this plan by achieving a cumulative surplus at 31<sup>st</sup> March 2008 of £2.5 million which means that there was an in-year surplus of £0.8 million.

Financial balance has been achieved in part this year through progress in meeting its efficient government targets. NHS NSS' 2007/08 financial plan included a target for efficient government savings of £2.087 million. By the end of 2007/08, £2.5 million of recurring savings had been achieved. However, its recorded surplus is also partly due to slippage on some projects. NSS has identified that it has £3.314 million (net) of such "ring-fenced" funding to be carried forward, therefore its underlying financial position can be seen as a deficit of £793k.

NHS NSS'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 NHS NSS for 2007/08. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

## Performance

NHS NSS has continued to build on its good performance management culture during 2007/8 with, for example, the establishment of a Director for Strategic Planning and Performance Management making an impact. Regular divisional and departmental performance reviews are used to feed into six-monthly overviews to the Board. A process is in place to help ensure that, where targets are missed, corrective action is taken.



Management acknowledge the need for further improvements in performance management and this is being addressed in 2008/09. NSS has moved towards delivering its services to its internal 'customers' through a Corporate Support Group which includes: Corporate Affairs, Corporate Services, Strategy & Performance, and Human Resources, with the aim of improving corporate working and performance management, and helping to improve the national support services provided to the greater NHS. The Corporate Support Group is one of three new Groups established within NSS to improve customer focus, the other two Groups being Health Support and Business Support. In turn, NSS's recent Corporate Strategy 2008/09 to 2012/13 sets out seven Strategic Enhancement Themes (7SET), which will provide a focus for achieving the NSS vision (which is "to be valued as a world class partner that enables and support transformation in the health and wellbeing of all the people of Scotland.")

NHS NSS was successful during 2007/08 in delivering the relevant efficiency and other HEAT targets specified in its Local Delivery Plan (LDP). A LDP for 2008/09 has been submitted to SGHD and includes 6 HEAT objectives directly applicable to NSS, and 11 additional NSS specific targets to reflect the organisation's most significant contributions to delivery of the SGHD's *Better Health Better Care* Action Plan.

## **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 the Board 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.

Clinical governance arrangements have continued to develop during the year. The work of NSS's Clinical Governance Committee, which has met regularly throughout the year, has now been supplemented with improvements at divisional level. These changes have been made partly in response to a review carried out by Quality Improvement Scotland. While their report concluded that NSS was complying with clinical governance standards, it did conclude that all divisions needed to establish a clinical governance committee and ensure that clinical issues were embedded within their risk management processes.

## **Looking forward**

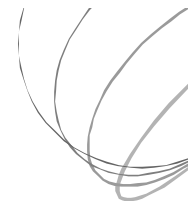
The final part of our report notes some key risk areas for NHS NSS going forward. Some of these are national issues and centred around future funding arrangements and the need to prioritise spending and achieve planned efficiencies. NSS will also need to respond to the Scottish Government's development of a National Performance Framework and outcome agreements.



There are also important issues which need to be addressed, specific to NSS. These include continuing to lead the national Shared Support Services programme on behalf of SGHD, and responding to a planned public inquiry into why people became infected with Hepatitis C and HIV, through blood and blood products in the NHS and dealing with the potential impact on the Scottish National Blood Transfusion Service (SNBTS), a Division of NSS.

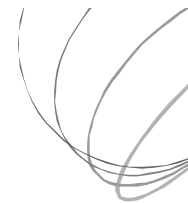
The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

**Audit Scotland**  
**July 2008**



# Introduction

1. This report summarises the findings from our 2007/08 audit of NHS NSS. The scope of the audit was set out in our Annual Audit Plan, which was presented to the Audit & Risk Committee on 4 April 2008. This plan set out our views on the key business risks facing the Board and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on 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).



# Financial Position

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

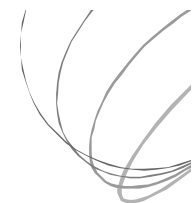
## Our responsibilities

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 income.
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 NHS NSS for 2007/08.
8. As agreed, the unaudited accounts were provided to us on 19 May, supported by a working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 27 June as planned.





## The Board's financial position

### Outturn 2007/08

9. NHS NSS is required to work within the resource limits and cash requirement set by the Scottish Government Health Directorate (SGHD). NSS' 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	382.116	379.595	2.521
Capital Resource Limit	26.449	26.449	-
Cash Requirement	375.000	372.061	2.939

10. The Board has recorded a cumulative surplus of £2.521 million. As a £1.700 million surplus was carried forward from the previous year this means that there was an in-year surplus of £821k. The saving against the Revenue Resource Limit results mainly from funding having been received for major projects which are ongoing into 2008/09. These funds have been carried forward, with SGHD approval, to ensure completion of the relevant projects and initiatives. NSS has identified that it has £3.314 million (net) from such "ring-fenced" funding to be carried forward. Without this, a deficit of £793k would be recorded. However, NHS NSS still has a recurring surplus of £9 million at present, as illustrated in table 2 below.
11. NHS NSS' 2007/08 financial plan for achieving financial balance included a target for efficient government savings of £2.087 million. By the end of 2007/08, £2.6 million of recurring savings had been achieved.

**Table 2**

**Funding Position 2007/08**

	£ Million	£ Million
Recurring income	236.3	
Recurring expenditure	227.3	
Underlying recurring surplus		9.0
Non-recurring income	219.1	
Non-recurring expenditure	225.6	
Balance of non-recurring		(6.5)
Difference		2.5
<b>Financial surplus</b>		<b>2.5</b>



## Disposal of PFC and Alba Bioscience

12. A decision was made by the Health Minister in June 2006 that the manufacturing operations of NHS NSS should be disposed of. These comprised the Protein Fractionation Centre (PFC) and Alba Bioscience, both of which were operated by Scottish National Blood Transfusion Service (SNBTS), a Division of NSS.
13. In the absence of a buyer to take on its remaining activities, a managed closure of PFC commenced during 2007/08. An existing MoD contract required to be serviced until December 2007, and final closure occurred at the end of 2007/08. The arrangements to manage the closure of the facility, including redeployment and redundancy, were effective in minimising disruption to operations. Adequate provision has been made in the accounts for the financial consequences of closure, which are expected to be fully funded by SGHD, as noted in this report under *Financial Position*.
14. An initial round of tenders in February 2007 for the sale of Alba Bioscience, resulted in a management buyout (MBO) team being selected as preferred bidder. By late April, 2007 the MBO bid had fallen through, and a further round of tendering was carried out in June 2007, with the successful bidder being Quotient Bioresearch (QBR). The sale was completed as at 31 August, 2007.

## 2008/09 Budget

15. The 2008/09 corporate financial plan includes a £4.9 million savings target which will be delivered, as in previous years, by limiting uplifts in divisional budgets. This target includes a significant component which relates to the commissioning activities of NSD, and which will therefore be subject to agreement with relevant Boards and with SGHD. Although work is ongoing to identify the detailed project savings, management expect that the increased efficiency savings targets will be met.
16. The baseline Revenue Resource Limit allocation has been agreed with SGHD at £247 million, with additional anticipated allocations of £145 million providing a total projected funding figure of £392 million for 2008/09. Baseline allocations are expected to increase by 3.15% per annum thereafter. A break even position is being forecast for 2008/09, and for the following two years 2009/10 and 2010/2011. The RRL for 2008/09 includes the £2.5 million surplus carried forward from 2007/08.
17. **Protein Fractionation Centre:** Financial plans assume that the final costs of closure will be met by SGHD funding. Outstanding costs of closure are currently £1.1 million for 2007/08 and £4.0 million expected to arise in 2008/09. Based on discussions with SGHD, these costs are expected to be funded by SGHD in full. In addition, the future use of the former PFC site has yet to be decided, so it may be necessary in 2008/09 to recognise impairment costs of approximately £10 million in relation to former PFC buildings, should they require to be valued at open market value. Again, financial plans are based on central funding being available to cover such an eventuality.

**Risk Area 1**



## Issues arising from the audit

18. We reported the following main issues to the Audit and Risk Committee on 27 June 2008:
19. **Audit Trail:** There were a number of weaknesses and gaps in the working papers provided to audit in support of the draft accounts. In many cases this was due to adjustments having been made in accounts but not reflected in the supporting working papers. However, while this led to delays in completing our audit, we are satisfied that we have now obtained sufficient evidence to support all material items.

**Resolution:** Senior finance staff have undertaken to review the process for producing annual accounts and audit pack in order that similar problems do not recur.

20. **GRNI (Goods Received Not Invoiced) Accrual:** Included in Creditors is a balance of £10.4m representing goods or services, received by the organisation, for which an invoice is still to be received at the year end. It was found that within this total there were items amounting to £673,487 which were in excess of 6 months old, or were undated on the system. In our view, most of these are likely to relate to invoices received and paid but not matched against the relevant GRN. While some of these accruals may still be valid, it is possible that year-end Creditors are overstated by up to £673,487, with a corresponding overstatement of expenditure in the Operating Cost Statement.

**Resolution:** NSS finance staff will continue to review the items in this balance in order to eliminate items which should not be recognised as creditors. Based on materiality, no adjustment has been made in the financial statements.

21. **SFR 30 Balances:** The indebtedness between NHSScotland bodies requires to be eliminated on consolidation for production of NHSScotland accounts, therefore NHS bodies have to reach agreement regarding their respective debtor and creditor balances, to within £100k. Any balances which cannot be agreed within the prescribed deadline should be included in both parties' accounts at the full amount appearing in the records of the charging body. NSS have failed to agree a number of debtor and creditor balances with other boards, and have made a number of adjustments to balances without the agreement of the other party. Some debtor and creditor balances disclosed in SFR 30 returns do not agree, therefore, with balances which will be appearing in the equivalent returns submitted by the counterpart boards. While this does not necessarily affect the expenditure reported in NSS's accounts, there is a risk that accruals and expenditure are misstated. It does also mean that additional work will require to be done by SGHD as part of their consolidation process.

**Resolution:** No adjustment has been made in the final accounts, but steps should be taken to comply with the relevant SGHD guidelines on dealing with SFR 30 balances in future years.



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 NSS had received 6 claims under the Equal Pay Act.

**Resolution:** An unquantified contingent liability is included in the accounts and reference has been made in the letter of representation.

23. **Agenda for Change:** As at 31 March 2008 £7.252m was accrued and £9.293m included within provisions, in respect of agenda for change payments. The provisions figure includes £8.08m relating to appeals. The total agenda for change liability includes estimations based on NHS NSS'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 and provision together, in their judgement, represents a prudent estimate of anticipated costs.

**Resolution:** Appropriate disclosures were made in the letter of representation.

24. **Impairments -** Impairments totalling £1.599 million are included within Annually Managed Expenditure on the Summary of Revenue Resource Outturn. As this amount includes an element of estimation, we requested that the letter of representation includes assurances that all disclosures and accounting treatment have been effected in accordance with the Capital Accounting Manual and relevant guidance.

**Resolution:** Appropriate disclosure was made in the letter of representation.

25. **Pension provisions –** Due to the fact that the SPPA has not advised Boards of the amounts due for payments relating to early retirement costs, the provision includes estimation. NHS NSS has estimated the provision using the most recent data received as a base. We asked the Board for formal assurances, in a letter of representations that the accrual represents a prudent estimate of anticipated costs.

**Resolution:** Appropriate disclosure was made in the letter of representation.

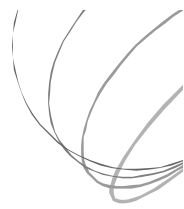
26. **Pension provisions – Discount rate applied:** NSS has applied a discount rate of 1.8% in calculating this provision as at 31 March, 2008, on instructions received from SGHD. The rate used differs from the HM Treasury prescribed rate of 2.2%, and we have calculated that the year end provision is therefore overstated by £162k.

**Resolution:** Based on materiality, no adjustment has been made in the financial statements.



## Equal pay claims

27. 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.
28. 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 NSS financial statements. We strongly encouraged NHS NSS 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.
29. As at 31 March 2008, NHS bodies had received over 12,000 claims and these had been passed to the Central Legal Office. It is possible that these claims represent a current liability for NHS boards generally. As noted in the 2007/08 financial statements of NHS NSS, by the end of May 2008 only 6 claims had been received against NHS NSS. We have not been able to obtain any estimate of the potential liability for these claims. For 2007/08 we have accepted this position because of its stage of development and as a result of the inclusion within the NHS NSS financial statements of a contingent liability which sets out relevant details on the matter.
30. 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.
31. 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 and 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.



32. We note the CLO's current view of the stage the cases have reached but strongly encourage NHS NSS 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

33. 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

34. 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.
35. 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.
36. This section covers our assessment of the way in which NHS NSS 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.

## Local Delivery Plan

37. Since 2006, the Scottish Government Health Department has placed a requirement on NHS Boards to produce a Local Delivery Plan (LDP). Each LDP sets out a delivery agreement between the Health Department and each NHS Board. The 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.
38. NHS NSS' Corporate Business Plan 2007/08 (incorporating the Local Delivery Plan) was approved by the Board in February 2007. NHS NSS was successful during 2007/08 in delivering the relevant efficiency and other HEAT targets specified in the LDP.
39. The 2008/09 LDP was approved by the Board, and submitted to SGHD in March 2008. It identifies 6 HEAT objectives directly applicable to NSS, and 11 additional NSS specific targets to reflect the organisation's most significant contributions to delivery of the SGHD's *Better Health Better Care* Action Plan. We will monitor the quarterly reporting of progress against LDP targets as part of our 2008/09 audit.

## Performance monitoring and reporting

40. It is important that health boards have performance management systems in place which provide the information required to effectively manage and monitor operational performance. These systems should also capture and record information against key measures and indicators contained in the HEAT targets, as these apply to NHS NSS.



41. NHS NSS has a good performance management culture, with regular divisional and departmental performance reviews feeding into half-yearly performance reviews to the Board. Where targets are missed and significant corrective action is required, a process is utilised to ensure that appropriate management action is taken and resources redirected if necessary. Management acknowledge that there is room for improvement in both planning and setting of targets, and in the monitoring of performance, and is addressing these areas in 2008/09.
42. From January 2008, as part of a review of its corporate strategy, NSS moved towards delivering its services to its internal 'customers' through four groups: Corporate Affairs, Corporate Services, Strategy & Performance, and Human Resources. This realignment should help to improve corporate working and performance management, helping to improve the national support services provided to the greater NHS. In turn, NSS's recent Corporate Strategy 2008/09 to 2012/13 sets out seven Strategic Enhancement Themes (7SET), which will provide a focus for the way NSS will provide its services in future.

## **Risk Area 2**

### **Best Value developments**

43. 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.
44. 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.
45. 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.
46. 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.





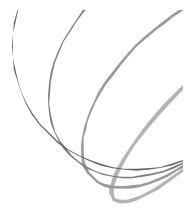
47. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a number of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.
48. The first of these toolkits, which covers Financial Management, has been piloted in NHS NSS 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.
49. 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.
50. In 2005/06 we carried out a baseline review of Best Value arrangements across the health service and an improvement action plan was agreed with NHS NSS. We found that NHS NSS' arrangements were 'well developed' for six out of the then Scottish Executive's nine best value characteristics, with the remainder 'under development'. In 2007/08 we completed a follow-up review and found that the Board is making progress with all the agreed actions. A number of key developments are currently underway to assist in embedding best value principles within NHS NSS.

## National studies

51. Audit Scotland published 4 national study reports, the first of which is of direct relevance to NHS NSS. The key findings are summarised in the paragraphs which follow.

## Overseas staff in the NHS- pre-employment checks

52. 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.



53. 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.

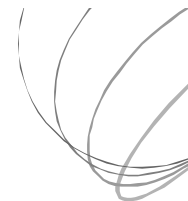
54. In December 2007 the Scottish Government produced guidance on the recruitment of staff, including the additional procedures that must be followed when recruiting overseas staff. This guidance sets out the minimum requirements for NHS employers and implementation of the guidance is a requirement of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

55. A review of local arrangements relating to overseas recruitment has been carried out at all remaining health boards and special boards. While we have still to complete all of our testing, we are satisfied that sound arrangements are in place within NHS NSS to carry out the appropriate pre-employment checks.

56. The 3 other reports issued were :

- A review of free personal and nursing care.
- Managing Long Term Conditions.
- Primary care out-of-hours services.

These are available at Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Governance

## Overview of arrangements

57. This section sets out the main findings arising from our review of NHS NSS' governance arrangements. This year we reviewed:

- key systems of internal control, including internal audit
- clinical governance
- aspects of information and communications technology (ICT)
- National Fraud Initiative.

58. 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 9-14). Our overall conclusion is that arrangements within NHS NSS are sound and have operated throughout 2007/08

## Systems of internal control

59. 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 his annual report for 2007/08 the head of internal audit provided his opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness of the systems of internal control.

60. As part of our audit we reviewed the high level controls in a number of NHS NSS' systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

## Statement on internal control

61. The Statement on Internal Control provided by the NHS NSS 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 NSS's approach to this.



## **Internal Audit**

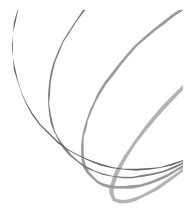
62. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2007/08 audit we assessed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

## **Practitioner Services Division – Service Audit**

63. The Practitioner Services Division (PSD) of National Services Scotland is responsible for calculating and making payments to primary care contractors on behalf of each Health Board. Payments to primary care contractors account for more than 20% of the total health expenditure in Scotland.
64. NSS appointed PricewaterhouseCoopers (PwC), as Service Auditor, to carry out a detailed Statement on Auditing Standard 70 (SAS70) review of this area. Their review provides assurance on the controls environment for processing practitioner data and paying primary care contractors. The report produced by the Service Auditor provides assurance on the control environment within PSD. It listed 24 control issues, but none of these were identified as being 'business critical' issues. The number of significant exceptions remained at five in 2007/08. Our review (summarised to other external auditors of Health Boards) concluded that we could place reliance on the work of the Service Auditor and that NSS continues to perform its role in properly managing payments to NHS practitioners.

## **National IT Services – Service Audit**

65. NSS manages a range of IM&T services used throughout Scotland including: the National IT Services contract (a new 11-year contract with the Atos Origin Alliance (AOA) commenced on 1<sup>st</sup> April 2007); the General Practice Administration System for Scotland (GPASS); the national data network and the Community Health Index (CHI). These systems underpin the delivery of NHSScotland's eHealth Strategy and are integral to the activities of NHSScotland.
66. The start of the new IT Services contract was followed by a period of contract and service transition which saw a number of key NHSScotland services, most notably the IM&T infrastructure used by the Practitioner Services Division, transferred to the IT Services contract. Although there were concerns about service continuity through this transition, the programme board chaired by the Director of Finance/Deputy Chief Executive of NSS, reported that the transition concluded successfully.



67. NSS appointed Scott-Moncrieff as Service Auditor, to carry out a detailed SAS 70 review of the processes operated by AOA. The report produced by the Service Auditor provides assurance on the control environment within AOA. It identified a number of controls issues, including two which were categorised as 'significant'. However, none of these issues were critical. Our review (summarised to other external auditors of Health Boards) concluded that we could place reliance on the work of the Service Auditor and that NSS is properly managing the National IT service which is provided by AOA.

## **Logistics – Service Audit**

68. During 2007/08, NSS National Procurement continued to implement a Logistics service for NHSScotland, helping to deliver savings to a number of health boards through the centralisation of the ordering, storage and distribution of supplies.
69. NSS appointed Scott-Moncrieff as Service Auditor, to carry out a detailed SAS 70 review of the processes operated by Logistics. The report produced by the Service Auditor provides assurance on the control environment within Logistics. It identified a number of controls issues, including two which were categorised as 'high risk'. However, none of these issues were critical. Our review (summarised to other external auditors of Health Boards) concluded that we could place reliance on the work of the Service Auditor and that NSS is appropriately managing the provision of a logistics service for NHSScotland.

## **National Procurement**

70. NHS NSS made good progress during 2007/08 in developing National Procurement arrangements across NHSScotland, despite the attendant risks around recruitment and retention of staff, management capacity and effectiveness of linkages with local procurement organisations across the NHS. More specific risks facing management included;
- plans based on all NHS Boards being signed up to the National Distribution Centre (NDC) by 2008/09, in order that Efficient Government time and cash releasing savings are achieved. The NDC opened in April 2007, and NHS Boards have been migrating their logistics operations throughout 2007/08. Efficiency targets have been exceeded, and it is expected that all Boards will be using the NDC by the end of 2008/09, in accordance with the planned implementation
  - completion of the 2007/08 work plan for implementation of National Contracts. Activity in this area has been successful with over 100 separate projects delivered in the year to provide an annual value of £600m pa across around 150 national contracts
  - the range of activities being progressed by NSS in the area of eProcurement, with potential impact on ability to deliver key stages in the overall project. During 2007/08, related efficient government targets have been exceeded and NSS has successfully led on a wide range of e procurement initiatives. Ongoing risks remain around recruitment and retention of skilled staff, relationships with internal and external partners and management of government expectations and requirements regarding the overall programme.



## Clinical governance

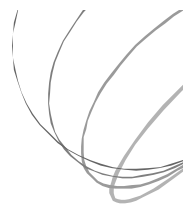
71. Clinical Governance within NSS is overseen by the Clinical Governance Committee which is a sub-committee of the NSS Board. It receives reports on aspects of the quality assurance of services likely to have an impact (direct or indirect) on patient care and provides regular reports to the NSS Board on relevant issues. The Committee met on four occasions in 2007/08.
72. Clinical Governance arrangements have been further developed in 2007/08, with improvements in Divisional CG structures, activity and reporting. Particular progress has been made in all aspects of clinical governance and safety within SNBTS, as evidenced by the favourable Medical and Healthcare Products Regulatory Agency (MHRA) inspections of its regional facilities during the year.
73. Quality Improvement Scotland (QIS) carried out a Clinical Governance & Risk Management peer review of NSS in 2006/07 and its report was published in April 2007. Whilst the overall view of the report was that NSS have complied with clinical governance standards, it was reported that all divisions needed to establish a clinical governance committee and recognise the relevance of clinical governance to their operations, and that clinical risk needed to be reviewed across the organisation and embedded within corporate risk management processes. The Committee approved an action plan to address the report findings in September 2007.
74. Going forward, clinical governance has been incorporated as a key element within the organisational realignment noted elsewhere in this report, and it is planned that a revised clinical governance strategy and implementation plan will be developed during 2008/09. The Local Delivery Plan 2008/09 identifies improvement against QIS clinical governance standards as a HEAT target to be met during the year. These responses are seen as key to the achievement of the necessary improvement against QIS Standards.

### Risk Area 3

## Information and Communication Technology

### Computer Services Review

75. We reviewed progress towards addressing the risks identified in our Computer Services Review (CSR) prepared as part of our 2005/06 audit. Activity to mitigate the identified risks is proceeding well and the majority of the risks highlighted are now considered closed. Relocating the majority of the NSS' IM&T servers to the national IT services data centre facility on a 'hosted only' basis provided the basis for standardising backup utilities and procedures. Our report noted that some servers remained outside this standardised backup process and we will review ongoing plans to include these as part of our 2008/2009 audit.



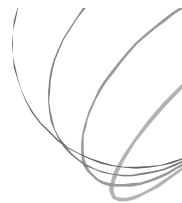
76. Against the background of an increasing number of public sector information security breaches being reported, formal adoption of the Information Security Policy was an important achievement. Ensuring that all staff understand and adhere to this Policy will be an ongoing task. The recently agreed Employee Monitoring Management Standard provides the basis for identifying potential instances of non-compliance. Full implementation of the automated tools to support the Management Standard cannot be planned until all employees have been informed of its terms. We intend to monitor the effectiveness of measures introduced to increase staff awareness about information security and ensure compliance with this Policy during our 2008/2009 audit.

## People management

77. We highlighted three main challenges for NHS NSS in relation to people management. These were recruitment and retention, Agenda for Change implementation and sickness absence. In addition, we highlighted the ongoing developments in Equal Pay Claims, and the recent activity in relation to pre-employment checks carried out on overseas staff, in the wake of the July 2007 terrorist attack on Glasgow Airport. Updates on Equal Pay and pre employment checks are provided elsewhere in this report.
78. The successful delivery of internal and national initiatives is dependent on staff capacity, capability and competency. NHS NSS continues to have difficulty in recruiting and retaining senior and specialist staff in key posts across the organisation, largely as a result of the outcomes from the Agenda for Change process and from changes in Senior Managers' Pay structures. This presents an ongoing risk to NSS in delivering its complex workload and particularly to the range of significant national initiatives which are under development. Management have carried out a comprehensive review of pay frameworks, and are assessing the impact of Agenda for Change and Senior Managers' Pay outcomes in order that overall pay and benefits packages can be optimised. Workforce planning and succession planning have become even more critical components of the organisation's overall delivery planning. Management acknowledges that it will continue to be a major challenge to attract and retain key staff, due to NHS pay structures and external market pressures.

### **Risk Area 4**

79. Across the NHS, full implementation of Agenda for Change continues to be a challenging and resource consuming process, especially within NSS since the staff profiles do not readily match with NHS norms due to the specialist nature of the workforce. It was expected that full assimilation would have been achieved by end of December 2007, however, this was not achieved. As at March 2008, 92% of staff had been assimilated, and the target for full assimilation is now the end of July 2008. The high incidence of reviews (almost 50%) is presenting an administrative burden, and more than 80% of reviews are being upheld, which has significant financial implications and this is reflected in the level of provision created for 2008/09.. Good progress has been made in the implementation of the



Knowledge and Skills Framework (KSF), although there has been some slippage against the previous national target of March 2008. The national timeframe for KSF implementation has now been extended to March 2009, so management do not expect this to be an issue beyond the summer of 2008. There continue to be risks to staff morale from the protracted nature of the process, as well as uncertainty over financial implications while this activity is ongoing.

## **Risk Area 5**

80. HDL (2005) 51 required that each NHS board in Scotland achieve a target of no more than 4% sickness absence by 31 March 2008. At the half year NSS had an absence rate of 4.29% and was expected to meet the target by the due date. The board had a promoting attendance policy in place, and instituted a sickness absence project to run from June 2006 through to the March 2008 deadline, with an emphasis on occupational health, training and communications improvements as methods of delivering improvement. The deadline for achieving the government target was subsequently extended to 31 March 2009, however, for the year to March 2008, the absence rate for NSS was 4.53%. Although the organisation overall is not significantly over the target 4%, there are individual divisions where the absence rate is significantly higher i.e. HQ, SNBTS, PSD, CFS. A comprehensive action plan with enhanced monitoring and management processes is in place and the LDP indicates a steady trajectory towards achieving the target by end December 2008.

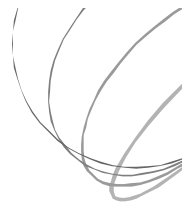
## **Prevention and detection of fraud and irregularities**

81. NHS NSS has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.

### **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.

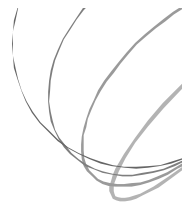




84. In May 2008 Audit Scotland released its report *National Fraud Initiative in Scotland 2006/07*. A full copy of the report is available on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). The report highlighted a range of areas where prevention and detection 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 NSS 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 i.e. payroll to payroll within and between bodies, payroll to payroll pensions etc. 16 payroll matches were still under investigation at end February 2008, due to non-response from other bodies, and 16 payroll matches were apparently still to be investigated, although none of these were categorised as high priority.
87. We continued to monitor the board's progress with NFI as part of the 2007/08 audit. I reported back to Audit Scotland, in February 2008, that NHS NSS' arrangements overall for NFI were adequate, but that appropriate progress had not been made in following up the NFI output, and not all necessary investigative work was completed within the required timescales.
88. 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 NSS' progress.

## Shared Support Services

89. Early in 2007, NHS Boards had expressed reservations over the risks attached to NSS' proposals for National Shared Support Services, and over the impact on staff and the deliverability of savings. Based on the response from the service, the Shared Support Services Project Board concluded it could not proceed with the programme in its current form. The project was re-launched as the Shared Support Services Programme with a two tier approach comprising Foundation level, where all Boards will migrate to the same version of the Cedar eFinancials finance system and will achieve a minimum standard of business processes by March 2009, and Pathfinder initiatives where selected Boards or consortia will test new systems functionality and associated business processes, before roll out to other Boards..

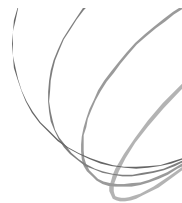


90. During 2007/08 a proposed “Way Forward” was developed, in consultation with NHS Boards, and approved by NHSScotland. Five consortia have been established and, following the completion of the various Pathfinder initiatives, it is planned to produce a revised SSS Business Case by September 2009. We will continue to monitor the development of shared service arrangements and the management of the related risks, which for NSS centre on securing the continued engagement and support of NHS Boards for the Way Forward proposals.

## Risk Area 6

### Blood Supplies

91. Problems with the level of blood donations are continuing, with a significant risk of insufficient blood supplies being available for patient needs in Scotland. The Scottish National Blood Transfusion Service (SNBTS) has identified, in consultation with staff and stakeholders, four primary strategic objectives for the service;
- reversing the donor decline
  - maintaining safe and secure blood processing
  - developing sustainable clinical services
  - developing sustainable tissue services.
92. A business case has been developed for plans to reverse the donor decline by the end of 2009/10. The option recommended to the Board, and approved in November 2007, has two aims:
- rebuild the donor base to compensate for attrition since 2004, thereby restoring normal service
  - building additional resilience into the donor base in anticipation of vCJD testing being introduced by the of end 2009/10.
93. The Local Delivery Plan for 2008/09 includes an NSS specific target “*Ensure adequate blood and tissue supply and quality to meet demand without invoking the integrated plan for meeting blood shortages*”. Measures to achieve the target largely comprise of enhanced supply and demand planning and stock management processes, however, funding has now been secured for an integrated marketing and publicity campaign to be carried out over a period of 27 months. Effectiveness in achieving the necessary reversal in donor decline will be monitored throughout, and appropriate corrective action taken.



The closure of the Protein Fractionation Centre presents financial risks to NSS in supplying plasma products, from commercial suppliers, for Scottish patients in the future. National contracts are already in place for the procurement of plasma products. It has been agreed in principle with stakeholder bodies that it is not a sustainable position for NSS to bear the financial risk of procurement of these products going forward. A preferred service delivery model has been proposed for the supply of plasma products using the existing hospital pharmacy infrastructure. Discussions are continuing with NHS Boards to develop the detail of the preferred option and associated funding mechanism. Final proposals and implementation plans are to be presented to NSS Board and NHS Chief Executives by the end of August 2008. We will continue to monitor progress in these areas.

#### **Risk Area 7**



# Looking Forward

94. NHS NSS faces significant challenges in 2008/09 which include:

- **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; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for NHS NSS is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives;
- **Equal pay** - The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. Although to date NHS NSS has received very few claims in relation to equal pay, its 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;
- **Hepatitis C Inquiry** - The outcome of the planned public inquiry into why people became infected with Hepatitis C and HIV, through blood and blood products in the NHSI is presently unknown. There may be a potential financial impact, relating to legal costs and staff input to the review processes. However, there is also a potential reputational risk to NSS, and specifically SNBTS, and thereafter to blood supplies;
- **NHSScotland Shared Support Service (SSS) Programme** – In addition to leading the SSS programme on behalf of SGHD, NSS are also a 'lead-board' for one of the SSS consortium groups. The first of these responsibilities requires NSS to monitor the performance of all the SSS consortia to ensure that all Boards remain on target to migrate to version 3.4 of eFinancials before April 2009, whilst continuing to deliver a range of Foundation and Pathfinder projects designed to test and deliver new common ways of working. Two further members are scheduled to migrate to the NSS Consortium during 2008/2009; the National Waiting Times Centre and NHS Lothian. As an aspect of our 2008/2009 audit we will continue to monitor the progress of the SSS programme, and NSS' role in its delivery;
- **National Information Systems Group (NISG)** – NSS continues to have a key role in providing procurement and programme management expertise to support SGHD in delivering the national eHealth strategy. These duties are primarily discharged via NISG, which has been under the leadership of an Interim Director for a number of years. A new Director of NISG has recently been appointed and will face the early challenge of ensuring that the NISG



organisation is appropriately aligned with the recently formalised SGHD eHealth programme structure. We will monitor how NSS develops the role of NISG to support the delivery of the recently published eHealth Strategy 2008/2011;

- **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 NSS is addressing this developing area as part of the 2008/09 audit;
- **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. The Scottish Government requested that NHS National Services Scotland (NSS) prepare a consolidated NHSScotland response to this review. 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 NSS’ 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. NHS NSS will be required to respond to this developing agenda.

95. 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	Future financial break even may not be achieved if central funding is not received for PFC final costs and for any impairment required.	The final costs have been fully provided for and as such are fully funded. The central funding of potential impairment of the PFC site has been assumed in the LDP submitted for 2008/09. The impairment meets the qualifying criteria to be centrally funded and as such there is no reason to believe that the funding will not be received. In addition the impairment has been discussed with SGHD colleagues in regard to appropriateness and to ensure that they have visibility.	Scott Haldane	No specific action at this point
2	NSS may fail to achieve expected benefits from organisational realignment, and may fail to make necessary progress in developing and implementing Strategic Enhancement Theme action plans.	<p>The Organisational Alignment Steering Group meets every 2 weeks to review progress. The Chairs of each Working Group attend in person monthly. The National Administration Working Group has completed its work.</p> <p>Each Division and Department is required to present its Action Plan to take forward the 7 Strategic Enhancement Themes. These 7 SET Session events take one day and are attended by CEO, DOF, Dir HR and DSP&amp;PM together with Divisional Senior Management Team.</p>	Steve Conway	7 set sessions complete by October 2008
3	NSS may fail to make the required progress against NHS QIS Clinical Governance and Risk Management Standards.	An Action Plan was developed after the QIS Review to address the areas requiring development. Progress against the Action Plan has been included in the Corporate Business Plan and Local Delivery Plan, with progress monitored through the Performance Management process.	Adam Bryson	In line with LDP target dates



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
4	NSS continues to experience difficulty in recruitment and retention of senior and specialist staff. This may jeopardise delivery of the organisation's complex workload, and delay completion of national initiatives.	HR have put in place an interim plan and detailed project plans for each stream; this includes the review & benchmarking of NSS to external markets for salary & non-financial benefits to enable development of strategy to attract key skills and knowledge required within NSS. e.g. CLO ,IM&T, this work will also underpin the impact assessments that will be included within the transition of AfC project to BAU.	Chris Murphy	December 2008
5	There may be a negative impact on staff morale from further slippage in Agenda for Change implementation, and a risk to financial stability from high incidence of reviews arising from the assimilation process.	As per item (4) above the AfC project has a project plan for all work streams to be moved to Business as usual. As at June 2008, NSS have completed assimilation of 95% staff. The project plans indicate complete by September-08.  Good progress has also been made by NSS for reviews completed to date (approx 50 %) in comparison to other health boards.	Chris Murphy	Sept 08 for AfC completion
6	NSS may face reputational and financial risks if the Shared Support Services project does not progress in accordance with planned timetable.	Programme Governance already in place to maintain strategic direction nationally, supported by Consortium Leads Working Group.  National contracts with Atos and Cedar managed by SSS Programme team to ensure successful delivery and support  All Boards will migrate to Cedar 3.4 by March 2009	Scott Haldane	March 2009
7	NSS and NHS Board partners fail to reach agreement on future arrangements for procurement of plasma products.	Working group established to take forward, with an agreed stakeholder group. Chief Executives and Directors of Finance involved in approving the future model. Transitional arrangements to be put in place prior to transfer.	Scott Haldane	Agreement by Aug 08  Implementation by Apr 09