



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

National Waiting Times Centre Board

Annual audit report to National Waiting Times Centre Board
and the Auditor General for Scotland

Year ended 31 March 2009

30 June 2009

AUDIT

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The contacts at KPMG in connection with this report are:

David Watt

Director
Tel: 0141 300 5695
Fax: 0141 204 1584
david.watt@kpmg.co.uk

Ally Taylor

Senior Manager
Tel: 0131 527 6813
Fax: 0131 527 6666
ally.taylor@kpmg.co.uk

Brian Curran

Manager
Tel: 0141 300 5631
Fax: 0141 204 1584
brian.curran@kpmg.co.uk

John McNellis

In-charge
Tel: 0141 309 2530
Fax: 0141 204 1584
john.mcnellis@kpmg.co.uk

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of only National Waiting Times Centre Board and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

The opening of the West of Scotland regional heart and lung centre at the beginning of 2008-09 presented a number of challenges in respect of financial and workforce planning. The transfer of cardiology and cardiothoracic services also meant that the Board was responsible for meeting its own waiting times targets for the first time. These targets were not met for a three month period in late 2008. Shortages of specialist staff resulted in increased use of bank and agency staff, contributing to a net £0.5 million overspend against the clinical and medical staffing budget.

Against this backdrop of change, the Board achieved the three financial targets and 99.6% of its target number of waiting list procedures. An additional cost of £1 million was transferred to the Scottish Government Health Directorate in May 2009 (as annually managed expenditure for impairment) which mitigated the impact on the outturn against the revenue resource limit of significant audit adjustments arising from errors in accounting for assets under construction and the valuation of land and buildings.

Going forward, management anticipates that responding to challenges around workforce planning, including the financial impact of pay modernisation, the requirement for increased efficiency savings, and the cost of continuous achievement of waiting times targets, will be vital to ensure continued financial balance. In addition, timely management of the impact of capital projects on the financial statements will mitigate the risk of late fluctuations in the outturn against financial targets.

The environment in which management and the board operate is well developed. Governance arrangements – financial, clinical and staff – now include an embedded performance management framework. The framework for developing robust staff governance arrangements is strong and demonstrates a commitment to best practice through the level of staff engagement.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the Code"). This specifies a number of objectives for our audit.

Audit framework

This year was the third of our five-year appointment by the Auditor General for Scotland as external auditors of National Waiting Times Centre Board ("the Board"). This report to the Board and Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan discussed with the audit committee on 4 November 2008.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including financial outturn for the year ended 31 March 2009 and financial plans for 2009-10 and beyond;
- arrangements around **governance and accountability**, including risk management, patient safety, partnership working and our consideration of the work of internal audit; and
- **performance management** and the Board's arrangements to achieve efficiency savings.

Best Value

Audit Scotland and the Scottish Government have been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Executive's nine best value principles as the basis for audit activity, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).

In 2008-09 we completed work on arrangements to achieve Best Value through information management. Plans are being developed for the application of a series of toolkits on the use of resources in future years based on an assessment of the Board's priorities and risks during the audit planning process. During the year, the Board reviewed and updated its self-assessment against a baseline review undertaken in the previous year.

Responsibilities of the Board and its auditors

External auditors do not act as a substitute for the Board's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the accountable officer, to make arrangements to secure Best Value.

Action plan

We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2008-09 audit. This report does, however, include an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff.

Background – service overview

Service overview

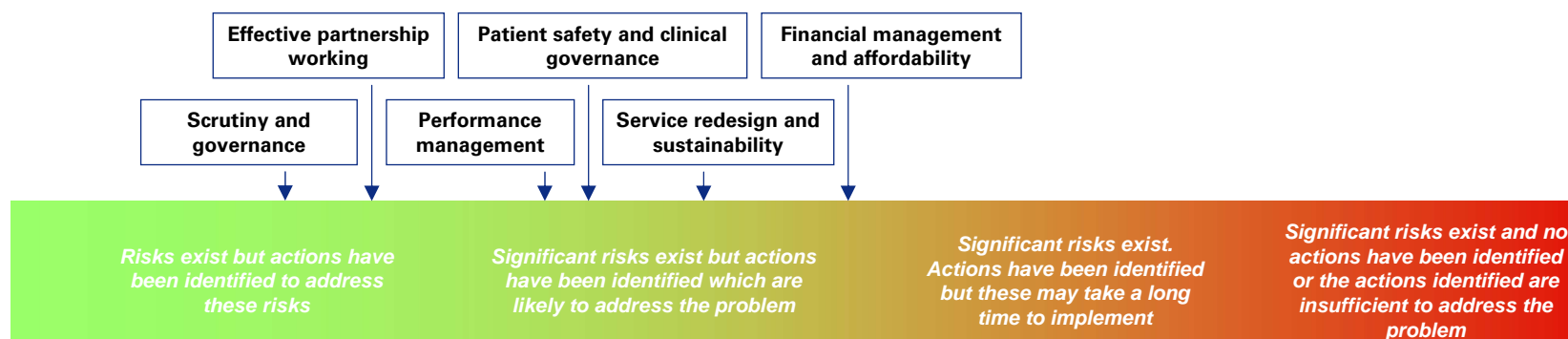
The West of Scotland regional heart and lung centre opened at the Golden Jubilee Hospital, Clydebank in May 2008 and now provides all heart and lung surgery in the west of Scotland, as well as interventional cardiology services. This resulted in a significant transfer of staff and healthcare services to the Board from NHS Greater Glasgow & Clyde and NHS Lanarkshire, increasing focus on workforce planning and the financial impact of pay modernisation initiatives.

During 2008-09 the hospital carried out 24,587 procedures to meet the waiting list targets of territorial boards. This was 88 procedures behind the target of 24,657 procedures (0.4%), a shortfall primarily due to reduced inpatient activity from referral flows and assessment of patient suitability and fitness for surgery.

Following the transfer of services, the Board is responsible for meeting its own waiting times targets for the first time. Management has experienced some problems and failed to achieve its waiting times targets during September, October and November 2008. This was due to a combination of factors, including staff shortages and a higher proportion of complex patients than predicted. In order to resolve these problems in the short-term the Board hired agency staff and conducted procedures at times outside normal operating hours, but this had an impact on expenditure against budget. In addition, the Board purchased care for low risk elective patients from the private sector and NHS Lothian. The Board met its waiting times targets for the remainder of the year.

Patient safety and the clinical governance framework is shaped by the clinical governance strategy 2006-09. Management demonstrated a clear commitment to maintaining high standards of patient safety at all levels. Key performance indicators are included in routine performance management and measurement arrangements. Participation in the Scottish Patients' Safety Programme is led by the director of nursing and includes a system to monitor compliance with communications on patient safety. There are established means of communicating to staff and patients, including the hospital magazine, which has a specific section on patient safety, monthly presentations by senior nurses to staff, and monthly leadership 'walk-arounds'.

The Board's arrangements to achieve national priorities and mitigate against key risks can be characterised by us as follows:



We have issued unqualified opinions on the financial statements and the regularity of transactions reflected in those financial statements and have drawn attention to the Board’s contingent liability in relation to equal pay claims.

There were three key issues arising from our audit of the financial statements:

- Valuation of assets under construction – the original valuation obtained for land and buildings at 31 March 2009 did not include assets under construction. As the hospital reception upgrade was substantially complete at that date (and there was an indication of impairment) a valuation of this area was also required. This was obtained in May 2009 and has been reflected in the final financial statements, resulting in an increase in net operating costs and decrease in the value of fixed assets of £981,000.
- Valuation of land and buildings – initial meetings between management and the valuers suggested that the reasons for the fluctuations in market value of existing land and buildings related to changes in market prices. However, subsequent discussions with the external valuer in May 2009 identified that £407,000 (19%) of the reduction in value did not relate to changes in market value and net operating costs were increased to reflect the impairment.
- Pay accruals – the draft financial statements included an accrual of £0.4 million for untaken holiday at 31 March 2009, but this was removed as a result of the audit process because it was inconsistent with accounting policies.

Recommendations

The action plan includes recommendations for improvement in the following areas:

| Area for development | Action plan reference |
|---|-----------------------|
| Final instructions to the external valuer did not fully consider all issues surrounding assets under construction in the year end valuation (despite meetings between management and the valuer prior to the year end). This was due to changes in the expected timing of completion of these assets. Management should ensure that in the future the external valuer is fully briefed on the status of the assets subject to valuation (including assets under construction) and on all relevant accounting requirements so that the initial valuation is appropriate for inclusion in the financial statements. | One |

Audit opinions and key issues

Reporting arrangements and timetable

In accordance with the Board's timetable, draft financial statements were available for audit on 28 April 2009. This allowed for timely completion of the audit and consideration and approval of the financial statements by the board on 18 June 2009.

Audit opinion

Following board approval we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements.

Key issues arising during our audit of the financial statements

Our audit plan overview and interim management report narrated three key risk areas. We have concluded our work in these areas and summarise the results below.

| Key risk area | Conclusions |
|---------------------------|--|
| Financial position | <p>At October 2008 the Board forecast a surplus of £5 million, after returning £3 million of capital funding to the Scottish Government Health Directorate. The executive team also approved the use of additional, non-recurring funding of £1.2 million to reduce the surplus. The financial statements report a surplus of £4.3 million.</p> <p>In 2007-08 we reported on some significant areas impacting the financial position and management has made some progress during 2008-09:</p> <ul style="list-style-type: none"> • Discussions with NHS Lothian remain ongoing with a view to resolving outstanding amounts due to that Board. Both parties presented their case to the Scottish Government Health Directorate in relation to outstanding balances at 31 March 2008 and the Board is now involved in further discussions with NHS Lothian. The financial statements reflect a creditor for the full amount invoiced by NHS Lothian, despite a lack of agreement on the amount due. Agreement has been reached over balances relating to the 2008-09 financial year. • The balance sheet at 31 March 2009 includes pay accruals amounting to £1.9 million (2008: £2.5 million), including residual, actual and potential liabilities arising from pay modernisation. The majority of accruals have existed for a number of years, some without claims having been received from staff. Management has confirmed the necessity of these accruals as at 31 March 2009 and have identified that a number of these balances are likely to be utilised or settled in the coming year. |
| Transfer of assets | <p>As part of the creation of the heart and lung centre, NHS Greater Glasgow & Clyde transferred equipment to the Board. The cost and accumulated depreciation of the transferred assets was agreed with NHS Greater Glasgow & Clyde. Management correctly updated its fixed asset register to reflect these assets following a physical verification of assets received. The gross book value of assets transferred during the year was £5 million.</p> |

Audit opinions and key issues (continued)

| Key risk area | Conclusions |
|--|---|
| <p>Impairment of fixed assets</p> | <p>The introduction of acute healthcare services as part of the heart and lung centre required that the Board upgrade the hospital reception, including a dedicated access route for patients arriving by ambulance. Construction work was ongoing during 2008-09 and, while work was not completed by the year end, £1.8 million of the total cost of this work (£1.9 million) had been incurred prior to 31 March 2009. Management consulted the valuer prior to the valuation taking place and decided that a valuation of the reception upgrade was not necessary due to the work being incomplete.</p> <p>We previously reported¹ that management considered that there was a reasonable likelihood of impairment as an element of the work related to upgrading internal space (rather than building new facilities) and, based on previous experience, expenditure of this nature does not usually add significant value, which cannot be recognised as a fixed asset. At that time, we highlighted the importance of management engaging with the external valuer to ensure that the project was valued appropriately in line with the NHS Scotland capital accounting manual. This guidance requires that “assets under construction are revalued in the same way as completed buildings” and that the carrying value of an asset under construction must be reduced if it becomes apparent that costs incurred are less than the value of the asset created.</p> <p>As a result of the audit process, management obtained a valuation of the reception works, which was £574,000 lower than the costs reflected in the financial statements. The financial statements were adjusted and net operating costs increased by £574,000.</p> |

Valuation of fixed assets

The Board’s accounting policies require that land and buildings are subject to annual valuation. Valuations are carried out by an external valuer in accordance with the Royal Institution of Chartered Surveyors’ appraisal and valuation manual and financial reporting standards. The report at 31 March 2009 valued land and buildings at £114.3 million, a decrease of £4.3 million from the value in the fixed asset register. The draft financial statements were prepared on management’s assumption that the valuation excluded fixed asset additions during the year to 31 March 2009. However, refurbishment costs of £0.7 million had been incurred and the nature of work completed was such that it did not change the use of the building. £407,000 of the decrease did not add value. In addition, the draft financial statements were prepared on the basis that the whole decrease in value was solely due to a temporary change in market values.

A final revised valuation report was received on 26 May 2009 and resulted in a cumulative decrease in the value of fixed assets of £981,000 and a corresponding increase in net operating costs.

Management should ensure that clear and full instructions are provided to the valuer in 2009-10 and future years to prevent significant fluctuations in the financial outturn arising during the audit process. On receipt of valuation reports management should initiate discussion with the valuer to understand the reasons for fluctuations and value in advance of the audit fieldwork to ensure that management understand the results presented in the financial statements.

¹ Interim management report KPMG, January 2009; Annual audit report (KPMG, July 2008)

Audit opinions and key issues (continued)

Accounting framework

Management initially accrued £0.4 million for annual leave not taken during 2008-09. As part of the transition to the international financial reporting manual ("IFReM"), the Board is required to create an accrual for untaken annual leave, which is reflected in the restated IFReM balance sheet at 1 April 2008. Management assumed that this could also be reflected in the 2008-09 financial statements (to reflect the cost pressures from the increased staff numbers associated with the opening of the heart and lung centre) which continue to be prepared in line with UK accounting standards. As this is not the case, an adjustment was processed to remove the accrual and decrease net operating costs accordingly.

Equal pay

Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was expanded on in the Equal Pay Directive, which made it clear that all such discrimination should be eliminated from all aspects of remuneration. As at 31 March 2009, NHS bodies in Scotland had received some 12,500 claims for backdated pay increases arising from this requirement and referred them to the NHS Central Legal Office. It is possible that these claims represent a current liability for NHS boards. While the NHS Central Legal Office has not recorded any claims directly against the Board, a number of claims were submitted to previous employers prior to staff transferring to the Board's employment. If successful, these claims will fall to be settled by the Board.

The NHS Central Legal Office has co-ordinated the response to all claims and advises that, until named comparators are identified, a view cannot be taken either about the likely success, or otherwise, of the claims or the value of them. Further information is, therefore, required about the claims and there are fundamental legal issues that require to be tested to allow any assessment of financial risk to be included in the financial statements. On the basis of this position, and following discussions with the Scottish Government Health Directorate and the NHS Central Legal Office, the Board has recognised its potential financial exposure by way of a contingent liability in its financial statements.

In the light of the potential significance of this matter to the Board individually, we have included an "emphasis of matter" paragraph in our audit opinion. We strongly encourage management, working with the Scottish Government Health Directorate and other NHS boards, to progress resolution of this matter so that there is clarity over the Board's financial position.

We identified one recommendation relating to equal pay and have included this in the action plan in appendix one.

Recommendation two

Regularity of transactions

In order to gain assurance over the regularity of expenditure we updated our understanding over processes to receive Scottish Government Health Directorate circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points.

The communications department receives and distributes circulars from the Scottish Government and other regulatory bodies. A record is maintained of all circulars received and records acknowledgment and responses for each circular issued to staff for action.

We have considered the specific requirements of a number of financial circulars, particularly those in relation to remuneration, and did not identify any instances of non-compliance.

Service organisations

NHS National Services Scotland ("NHS NSS") operates a number of systems and initiatives on behalf of NHS boards in Scotland. Service auditors are appointed to provide assurance over control objectives agreed between NHS NSS and NHS boards in relation to the operation of these systems. Service audits were conducted in accordance with Statement on Auditing Standards 70, issued by the American Institute of Certified Public Accountants, in order to provide positive assurance over controls and to identify areas of control weakness.

Audit Scotland, as external auditor of NHS NSS, reviews the work of service auditors on behalf of auditors of other NHS bodies. This has enabled us to place reliance upon the work of service auditors of the practitioner services division of NHS NSS, the national logistics programme, national information and management technology systems.

Financial ledger shared services

Under the 'new way forward' national programme led by NHS NSS, the intention is to develop and deliver a programme of foundation and pathfinder activities together with health boards in Scotland, leading to the implementation of financial shared services across Scotland. NHS NSS is one of four consortia established during 2008-09 and hosted the Board's financial ledger since 20 August 2008.

The Board received a SAS 70 service auditor report in respect of the financial ledger shared service, which concludes that:

"In our opinion, the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period from 1 April 2008 to 31 March 2009, except in the following noted respects:

- *new user access, removal of user access and certain other amendments have not been authorised in all cases by individuals recorded to do so on authorised signatory lists; and*
- *the creation and amendments of standing data has not in all cases been actioned in accordance with required policies and could not always be supported by documentary evidence."*

Management has considered the impact of these weaknesses and, where appropriate, have put in place compensating controls at a local level to minimise these.

Implementation of International Financial Reporting Standards

The NHS will prepare full IFRS compliant financial statements for the year ending 31 March 2010. This is preceded by a shadow conversion process.

The 2007 budget had announced that central government and health bodies would report under international financial reporting standards (“IFRS”) from 2008-09. Following consultation with Government departments and the Financial Reporting Advisory Board on the technical work needed to implement this change, the Government now intends to move to IFRS from 2009-10 as announced in the 2008 budget.

Health bodies will be required to prepare their financial statements on the basis of IFRS from 2009-10. Shadow IFRS-based financial statements, including an opening balance sheet, will be required for 2008-09. The shadow IFRS-based financial statements were subject to a ‘dry run’ audit in accordance with timescales prescribed by the Scottish Government. The timescales are set out in the table below. NHS Scotland has contracted with PricewaterhouseCoopers LLP for support to individual health boards on the application of IFRS.

| | Presented for audit | Completion of dry-run audit |
|--|---------------------|-----------------------------|
| Opening 2008 IFRS based balance sheet | 28 November 2008 | 28 February 2009 |
| 2008-09 shadow IFRS based financial statements | 30 September 2009 | 30 November 2009 |

As a result of the audit of opening balances a report was issued to management highlighting the work done, our findings and areas for further work by management. Our work was undertaken in accordance with guidance included in Audit Scotland’s note for guidance 2008/6: *Auditors’ role in the implementation of international financial reporting standards*. The key points to note from our audit were that management must give further consideration to the accounting treatment of employee benefits and the valuation of fixed assets.

Our work on the 2008-09 shadow IFRS based financial statements will be performed as part of our 2009-10 audit.

The Board met its financial targets – revenue resource limit, capital resource limit, and cash requirement. The Scottish Government Health Directorate confirmed that £981,000 of additional expenditure arising from audit adjustments to fixed assets should be treated as annually managed expenditure. This mitigated the risk of any adverse impact on the financial outturn.

The 2009-10 financial plan forecasts a cumulative outturn against the revenue resource limit of £1.7 million. Achievement of the plan will be challenging due to increased efficiency savings targets (£0.8 million) and continued staff costs pressures. Risks to achievement of the forecast outturn would be minimised through greater anticipation of potential technical accounting adjustments during the year.

The Board experienced problems meeting its waiting times targets as a result of a shortage of skilled nursing staff. The human resources department has produced a revised staff plan in order to forecast staff shortages and seeks to recruit in advance of need for posts historically difficult to fill. Our assessment of processes to complete the staff governance action plan identified a number of areas of good practice, including high levels of employee participation and interaction and a clear commitment to improvement by senior staff.

Participation in the recent Audit Scotland study on capital projects concluded positively and management is assessing local arrangements against recommendations raised by Audit Scotland following its review of asset management in the NHS.

Recommendations

The action plan includes recommendations to improve the following area.

| Area for development | Action plan reference |
|---|-----------------------|
| Management should anticipate the impact of year end adjustments to the financial outturn arising from technical accounting matters such as fixed assets and provisions. | Three |

Financial management

Financial position

Performance against the three financial targets was as follows:

| £'000 | Original forecast | Final allocation | Outturn | Variance |
|------------------------|-------------------|------------------|---------|----------|
| Revenue resource limit | 67,606 | 63,294 | 59,032 | 4,262 |
| Capital resource limit | 9,678 | 6,576 | 6,036 | 540 |
| Cash requirement | 65,423 | 66,100 | 65,983 | 117 |

The Board achieved all three of its financial targets for 2008-09. £2.5 million of the reduction in the capital resource limit will be available for use in 2009-10.

Reconciliation of the financial plan and outturn reported in the financial statements

We reconciled key movements during the year and those identified after the year end during the preparation of the financial statements and subsequent audit.

| Movement | £'000 | Movement | £'000 |
|--|--------------|--|--------------|
| Financial plan forecast outturn against RRL | 3,993 | Draft financial statements | 3,987 |
| Other adjustments to revenue allocations | 1,084 | Impairment of assets under construction | 981 |
| Increase in other operating income. | 8,029 | Removal of annual leave accrual | 390 |
| Increase in hospital and community healthcare cost | (9,114) | Removal of other pay accrual adjustments | 37 |
| | - | Cost of correcting flooring | (200) |
| | - | Adjustment to capital charges | 67 |
| 31 March 2009 SGHD return | 3,992 | Removal of impairment cost (AME) | (981) |
| Profit on disposal of fixed assets | (5) | Other adjustments | (19) |
| Draft financial statements | 3,987 | Final financial statements | 4,262 |

While the outturn reported in the financial statements did not change materially compared to the forecast, there are a number of individually significant movements during the year, including those identified as a result of the audit process after the year end. This includes the treatment of impaired costs as annually managed expenditure.

Financial management (continued)

Financial management and budgetary control

The Board has good systems of financial management and monitoring. Financial progress reports for each directorate are presented to the performance and planning committee on a monthly basis. The introduction of heart and lung, in addition to the continuing elective care options, inevitably led to increased uncertainty in the Board's financial planning. Significant variances in staff costs, other expenditure and operating income arose during the year, but these have been understood and explained in monthly financial reports.

In 2007 service level agreements were established for all clinical procedures performed on patients referred from other NHS boards, rather than the previous process of invoicing based on monthly activity. This increased efficiency and reduced the risk to the Board of non-recovery of income. In 2008-09 heart and lung activity was invoiced based on activity. Management is considering implementing similar service level agreements for heart and lung activity to secure similar efficiency and risk benefits. Appendix two summarises income received in respect of routine waiting list activity and that received by the heart and lung centre.

Efficiency savings

The board set 2% efficiency targets for each directorate. Procedures for monitoring progress toward this target include regular reporting to the performance and planning committee. These reports clearly identify the combination of non-recurring and recurring savings achieved. The Board achieved its 2008-09 target of £800,000 of savings on a recurring basis and an additional £200,000 of non-recurring savings. Recurring savings primarily result from reviews of medical staff arrangements (£300,000), equipment procurement (£100,000) and support services (£100,000).

Financial planning

The 2009-10 financial plan projects a cumulative outturn against the revenue resource limit of £1.7 million. The 2009-10 budget has been prepared based on the estimated 2008-09 outturn adjusted for proposed efficiency savings, activity projections, estimated pay awards and price increases. Management has prepared a three year financial plan and believe that delivery will be challenging, but achievable, due to ongoing service pressures and efficiency saving requirements.

The table below summarises the key risks, identified by management, to achievement of the financial plan. Management has requested impairment funding in 2009-10 to mitigate any fluctuations in the accounting value of the refurbishment of the kitchen and canteen areas and has therefore not reported this as a risk.

Financial plan – key risks

- Heart and lung running cost are higher than anticipated (high risk - £1 million).
- Workforce issues, including: medical education, the European Working Time Directive and *Agenda for Change* (medium risk - £0.5 million).
- Cost of achievement of waiting list targets (medium risk - £1 million).
- Additional cash releasing savings cannot be retained by the Board (medium risk - £0.8 million).

Source: National Waiting Times Centre Board (May 2009)

Workforce management

The annual workforce plan is an integral part of the local delivery plan. During 2008 there were problems with shortages of staff with specialist skills, due in part to weaknesses in forecasting leavers, staff sickness and maternity leave following the expansion in services and the transfer of significant numbers of staff from hospitals in Glasgow and Lanarkshire. The director of human resources and the nursing director have developed a nursing strategy, which aims to address these problems, particularly in relation to posts which have been traditionally difficult to fill at short notice. This strategy provides details of management's plans in relation to workforce planning, clinical governance and patient safety. There are procedures to record and monitor sickness absence through the integrated payroll and human resource systems. The Board achieved 3.68% for the year, against the national 4% target.

Agenda for Change

The financial statements reflect a provision of £625,000 for the costs of full *Agenda for Change* assimilation, subsequent appeals and any potential claims from former Board staff. There are 17 reviews in progress and a number that have not yet started. In addition, as a result of the transfer of staff from NHS Greater Glasgow & Clyde and NHS Lanarkshire, staff performing similar roles do not receive the same remuneration, which is based on agreed pay levels set by their former employer. The cost of harmonising remuneration in these circumstances is included in the provision at 31 March 2009. If claimants are successful, the Board will be liable for the full back pay cost to 31 October 2004 (*Agenda for Change* implementation date) regardless of the employer prior to March 2008.

Staff governance

Staff governance is the third component of governance, combining with financial and clinical governance to complete the governance framework within which Scottish NHS boards are required to operate. The standards set out the minimum standard that each NHS Scotland employer must continuously achieve in their management of staff. In April 2009 we reviewed the Board's process for completing the staff governance action plan, and the robustness of the action plan, and reported a number of examples of good practice including:

- encouragement of staff to complete the staff survey through email reminders and increased awareness raising;
- bulletins to inform staff of the results of staff survey, shortly after the results were published, and the next steps;
- the use of workshops to provide staff with an opportunity to further discuss staff issues and provide input into the action plan with the areas or priority and suggestions for improvements to be made;
- a clear and defined process for the completion of the action plan with set timescales; and
- a clear commitment to the process by senior members of staff.

Asset management

The Board is committed to controlling and reducing its energy usage. Three voltage optimisation units were fitted during 2008-09, with a further three to be installed in 2009-10, which aim to reduce electricity usage. Additional work has also been undertaken to improve boiler efficiency and make lighting more efficient.

The Board was involved in Audit Scotland's national report 'review of major capital projects in Scotland', which evaluated the capital work to reconfigure the hospital for the heart and lung centre. This report concluded that the project was delivered just over cost, with a small overrun in time, and delivered within the scope of the business case. The Board also participated in the development of the national report 'asset management in the NHS'. Management is producing an action plan against the recommendations of this report. This will be monitored by, and reported to, the audit committee in 2009.

Procurement

The Board has clear arrangements for procuring large projects, as set out in their standard financial instructions. Capital expenditure up to £5,000 and £20,000 requires one and three quotes, respectively, and approval by the procurement manager. Capital expenditure greater than £20,000, but less than £90,000 requires a competitive tender exercise. Projects with expenditure greater than £90,000 require a formal tender process and are advertised in the Official Journal of the European Communities (OJEU). These significant projects are reviewed by a tender evaluation committee responsible for scoring tenders based on a combination of cost and quality.

The Board has committed to spend £1.9 million in 2009-10 on renovating the hospital's kitchens and canteen area. This project has been subject to a full OJEU tender exercise and evaluation to select a contractor. Management anticipate that this work will be completed in 2009-10.

The Board uses the national distribution centre ("the centre") to source the majority of its stock. Approximately 60% of medical consumables are purchased through the centre's electronic stock system, which is linked to the Board's financial system. In 2008-09 the centre has reported that the Board has saved £0.3 million compared to the cost of purchasing direct from suppliers.

Governance and accountability

The statement of internal control does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding of the Board.

Internal audit completed their agreed plan for the year and concluded that their work “did not identify any critical control weaknesses that we consider to be pervasive in their effects on the system of internal control”.

The majority of key financial controls are designed appropriately and operating as intended.

Arrangements to participate in the NFI are appropriate and are operating effectively. NHS Counter Fraud Services is currently investigating a suspected fraud.

Patient safety and clinical governance arrangements are supported by regular staff and patient communication.

Management continues to participate in regional planning groups. Service level agreements, for activity other than heart and lung, have increased efficiency and reduced the risk of non-recovery of income.

The audit committee notes all Audit Scotland national reports and management self-assess local arrangements where they applicable to services and healthcare activities.

Recommendations

We did not identify any significant recommendations for development in governance and accountability arrangements.

Corporate governance arrangements

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the Board is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Code requires auditors to review and report on corporate governance arrangements as they relate to:

- the Board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Governance framework

The corporate governance framework was established in line with the management statement and associated financial memorandum with the Scottish Government. The management statement sets out the broad framework within which the Board should operate and details the responsibilities and accountabilities of the Scottish Ministers, chair of the board and Accountable Officer. The board has five sub-committees: audit, staff governance, clinical governance, remuneration and performance and planning. Committee terms of reference are incorporated in the standing orders and include the committees' objectives, membership profile, remit, meeting frequency and reporting arrangements. The terms of reference were reviewed and updated by management during the year.

The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. The statement complies with the Scottish Government Health Department's guidance.

Internal audit

Internal audit delivered its plan and we relied on work over key financial controls and information technology governance. On 9 June 2009, the audit committee received internal audit's annual report, which concluded that "*our work did not identify any critical control weaknesses that we consider to be pervasive in their effects on the system of internal control*".

Internal controls

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, with the exception of some minor weaknesses in controls over fixed assets, purchasing, income and stock, controls are designed appropriately and operating effectively.

Equality and diversity

The Board has not been subject to a review by the Equality Commission. There are clear policies on race, gender and disability equality which are up-to-date and available on the Board's website.

Prevention and detection of fraud and irregularity

National Fraud Initiative (“NFI”)

Health bodies took part in the NFI exercise for the second time. Payroll information remains the main dataset for health bodies and creditors’ payment history and standing data were added to the 2008-09 exercise for health bodies as a ‘risk-based’ dataset.

In 2007-08 we concluded and reported that there were adequate arrangements in place for managing obligations with respect to NFI, but, despite these arrangements, a number of high priority matches remained outstanding at June 2008. These were subsequently resolved and no significant issues were identified.

Management reported to the audit committee on 4 November 2008 and outlined the process for participation in the 2008-09 NFI exercise. The Board complied with guidance about layered fair processing through notices on staff payslips and in the staff magazine. The data upload was performed by external consultants using a secure upload. An internal working team was established to undertake the work generated from the exercise, focusing on high quality matches. Progress is reported to the audit committee.

The Board received an increased number of matches as a result of the increase in staff numbers during the year. We tested a sample of resolved matches and concluded that satisfactory evidence was available to support all matches noted as resolved on the NFI system. A summary of the Board’s activity is shown below.

| | Total matches | Number investigated | Volume of fraud identified | Value of fraud identified |
|--------------------------|---------------|---------------------|----------------------------|---------------------------|
| 2007 | 97 | 97 | - | - |
| 2009 ¹ | 193 | 157 | ₂ | - |

1 As at 21 May 2009

2 One of the high quality NFI matches is under investigation by NHS Counter Fraud Services following suspicion of fraud.

Management arrangements

Management has a policy on fraud which includes a fraud response plan. This policy describes indicators of fraud and highlights areas where there is a heightened risk of fraud. The fraud response plan prescribes the action to be taken by an individual who suspects that fraud has been committed including a hierarchy of reporting.

Patient safety and clinical governance; partnership working

Patient safety and clinical governance

The Board's framework is governed by the clinical governance strategy 2006-09. The Board has demonstrated a clear commitment to maintaining high standards of patient safety at all levels. Key performance indicators are included in routine performance management and measurement arrangements. The Board actively participates in the Scottish Patients' Safety Programme, led internally by the director of nursing, and has a system to monitor compliance with communications on patient safety.

There are established means of communicating to staff and patients, including the hospital magazine, monthly presentations by senior nurses to staff, monthly leadership 'walk-arounds' during which directors discuss clinical safety issues with front line clinical staff, and patient representation, where appropriate, on hospital working groups. Ongoing improvements are being made to existing processes, for example, development of ward information charts to routinely report to patients and visitors on indicators such as infection rates.

Following the Cabinet Secretary for Health and Wellbeing's annual review in July 2008, the clinical governance committee recently received management's progress report against actions raised in the annual review. This covered areas such as:

- establishment of the heart and lung centre;
- ensuring the hospital is used to maximum capacity and fully utilised; and
- ensuring that waiting times standards are met.

Partnership working

The Board actively participates in regional planning with territorial NHS boards. A high level of communication is maintained with NHS boards to ensure the Board can react to the needs of NHS Scotland.

The Board's relationships with NHS boards have been flexible during 2008-09 in an attempt to minimise disagreement on patient numbers, and related income streams, and maximise the collective effort of NHS Scotland in reducing waiting times. To reduce uncertainty and fluctuations in income received, combined with the Board's continued effort to increase efficiency and reduce the marginal cost per patient, other NHS boards have been encouraged to use agreed capacity, but permitted to change the case mix or the source of the patients, for example:

- NHS Dumfries and Galloway could not provide any ophthalmology patients and the Board re-allocated this capacity to another Board. Re-allocating the capacity allowed the Board to charge the replacement board.
- Conversion rates from 'see and treat' patients (when the Board sees the patient for an outpatient consultation during which the requirement / suitability for surgery is determined) from NHS Dumfries and Galloway and Ayrshire and Arran were lower than expected. The Board offered to take patients already on waiting lists held by these boards to assist the Boards in meeting their waiting times targets.

All of the Board's executive directors participate on national and regional groups, including the West of Scotland regional planning groups and chairing the national nursing research, training and education group.

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of NHS Scotland. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at board level, as appropriate.

Management has established procedures to consider individual reports and intends to complete a local self-assessment against the five reports considered during our work. The reports are then assigned responsibility and are forwarded to the appropriate person or committee.

We submitted a short return to Audit Scotland in February 2009, and a second is due in July 2009, on the Board's responses and have summarised these below.

| Report topic (issue date) | Discussed by a committee | Noted by a committee | Self-assessment performed | Local action plan prepared | Plans to feed back to a committee | Frequency of feedback |
|--|-----------------------------|-------------------------|------------------------------|-------------------------------|--------------------------------------|--------------------------|
| New general medical services contract (July 2008) | x | ✓ | n/a | n/a | n/a | n/a |
| Palliative care (August 2008) | x | ✓ | n/a | n/a | n/a | n/a |
| Diagnostic services (November 2008) | x | ✓ | n/a | n/a | n/a | n/a |
| Day surgery (September 2008) | x | ✓ | n/a | n/a | n/a | n/a |
| Major capital projects (June 2008) | ✓ | ✓ | ✓ | In progress | n/a | n/a |
| Asset management in the NHS (January 2009) | x ¹ | x ¹ | - | - | - | - |
| Drugs and alcohol services in Scotland (March 2009) | x ¹ | x ¹ | - | - | - | - |
| Managing the use of medicines in hospital (April 2009) | x ¹ | x ¹ | - | - | - | - |

¹ Due to the timing of publication, these reports have yet to be noted or discussed by the audit committee, but will be discussed at a future date.

Due to the nature of the Board's activities, many of the national reports were not applicable. However, management established a policy that requires all reports to be noted by the audit committee.

Performance management

Performance management arrangements are now embedded in routine governance arrangements.

Management reported that all HEAT targets were achieved at 31 March 2009.

The Board promotes public reporting and stakeholder engagement, but the website could be enhanced by including board papers in addition to the minutes and agendas already provided.

The hotel reported a net profit of £58,000 compared to the forecast of £50,000.

Recommendations

We did not identify any significant recommendations for development in performance management arrangements.

Performance management (continued)

Following a period of development, the Board's performance management arrangements are now embedded in routine operations. In addition to HEAT targets agreed with the Scottish Government Health Directorate, the Board also set additional targets, which are incorporated into the corporate balanced scorecard considered by the performance and planning committee. The chief executive presents a summary report to each board meeting and the minutes of these meetings demonstrate consideration and scrutiny of that performance.

Performance against targets in 2008-09

The local delivery plan for 2008-11 set out a series of performance targets which have been agreed with the Scottish Government Health Directorate and reflect the Scottish Ministers' priorities for NHS Scotland. These targets are focused on four general areas: health improvement; efficiency and governance improvements; access to services; and treatment appropriate to individuals.

Management's corporate balanced scorecard shows that at 31 March 2009 all HEAT targets had been achieved; only three local targets – covering complaints response times, SPSP change packages and bed occupancy – were not achieved.

Public performance reporting

The Board has an up-to-date and easy to use internet site which contains a wide range of patient information and publications on activities and performance. The website include the results of the annual review, local delivery plan, and board meeting agendas and minutes, but, unlike some other NHS Boards, board papers are not available.

Stakeholder engagement and consultation

Management's commitment to involving the public ensures that patients needs are considered in planning the Board's services. This is completed through various public focus groups including those considering disabilities and patient focus.

Best Value

During the year management reviewed and revised the baseline assessment of the Board's Best Value arrangements completed in 2007-08 using Audit Scotland's template. This showed that, as a number of processes had been in place for the full year, a number of areas previously classed as "under development" had moved to "well developed".

Hotel performance

The Beardmore hotel reported a net profit, included in the financial statements, of £58,000, which was £8,000 higher than budget. Hotel conference income increased by £177,000 above budget, but was offset by similar reductions in income from rooms and the restaurant.

Appendix one – action plan

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Board or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

| No. | Issue and recommendation | Management response | Officer and due date |
|-----|--|--|---|
| 1 | <p>Similar to previous years, adjustments to tangible fixed assets arose as a result of the audit process. They had an impact on the financial position reported in the financial statements.</p> <p>There was a lack of clarity and guidance in management's final instructions to the external valuer which did not reflect late changes to the timing of the construction works.</p> <p>Management should ensure that clear and full instructions are provided to the external valuer in a timely manner, liaising with external audit at an early stage in the process if appropriate.</p> <p><i>(Grade two)</i></p> | <p>Capital work on the new reception scheme was not completed by year end – NWTCB informed SGHD of this and they agreed that we defer our impairment bid until 2009-10. We confirmed if this was accurate with our independent valuer and he agreed stating that by 31 March the work was incomplete (indeed he could not even get into the scheme to value this). He advised us that he would not value this in this financial year in accordance with the above. This issue has been raised by KPMG as being a material overstatement of our assets at 31 March. We recognise that the recommendation is best practice (as opposed to common practice) and sought a solution to resolve this. SGHD agreed to fund the impairment value in 2008-09. We require confirmation from external audit at an early stage regarding materiality of capital schemes. NWTCB have arranged a meeting in August with the Board's valuer and will send the output of this to external audit prior to the year end.</p> | <p>Director of finance 31 August 2009</p> |
| 2 | <p>We strongly encourage management, working with the Scottish Government Health Department and other NHS boards, to progress resolution of equal pay so that there is clarity over the Board's financial position.</p> <p><i>(Grade one)</i></p> | <p>Agreed. Liaison will continue with Scottish Government Health Directorate to ensure that liabilities can be calculated appropriately, when quantifiable.</p> | <p>Director of finance 31 March 2010</p> |

Appendix one – action plan (continued)

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Board or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

| No. | Issue and recommendation | Management response | Officer and due date |
|-----|---|--|--|
| 3 | <p>The Board has good systems of financial management and monitoring. However, the strength and accuracy of routine financial reporting processes can be masked by adjustments during the preparation of the financial statements and adjustments during the preparation of the financial statements.</p> <p>Management should consider the impact of annual adjustments and the application of accounting standards to key account balances, particularly fixed assets and provisions, during the year to mitigate the risk of fluctuations in the financial outturn after the year end.</p> <p><i>(Grade two)</i></p> | <p>Management review provisions on a monthly basis. This is an ongoing process. In terms of fixed assets and capital, this is reviewed by the capital group on a routine basis although the senior finance team note that earlier engagement with external audit is required.</p> <p>In relation to the specific issue regarding accounting policies, NWTCB considered it appropriate to recognise a likely cost pressure effectively incurred in 2008-09 but impacting in 2009-10. External audit confirmed this was not in line with UK GAAP accounting policies. Note however this is in line with IFRS accounting policies that will impact in 2009-10. The Board will now try to secure this transfer of funds from NHS Lanarkshire and NHS GG&C, but recognise this is now a significant financial risk in 2009-10. SGHD have confirmed this unlikely to be carried forward into 2009-10 .</p> | <p>Director of finance 31 March 2010</p> |

Appendix two – hospital and community healthcare Board income

| NHS board | Heart and lung (£'000) | Waiting lists (£'000) | Total (£'000) |
|----------------------------|------------------------|-----------------------|---------------|
| Ayrshire & Arran | 4,933 | - | 4,933 |
| Dumfries & Galloway | 1,544 | - | 1,544 |
| Forth Valley | 1,067 | 329 | 1,396 |
| Argyle & Bute | 1,463 | - | 1,463 |
| Greater Glasgow & Clyde | 24,770 | 269 | 25,039 |
| Lanarkshire | 6,831 | 64 | 6,895 |
| Western Isles | 297 | - | 297 |
| Borders | - | 72 | 72 |
| Lothian | - | 336 | 336 |
| National services division | 4,313 | - | 4,313 |
| Others | 133 | - | 136 |
| Total | 45,351 | 1,070 | 46,421 |

Source: National Waiting Times Centre Board (May 2009)