



**SCOTT-MONCRIEFF**

EDINBURGH AND GLASGOW



## **NHS Forth Valley**

# Annual report to Forth Valley Health Board and the Auditor General for Scotland

**July 2009**



# NHS Forth Valley

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# Executive summary

## Financial statements

Our audit of the 2008/09 financial statements is complete and our audit opinions are unqualified. NHS Forth Valley achieved all of its financial targets, delivering a saving against the Revenue Resource Limit (RRL) of £3.525m (0.8%).

In line with the national position, the Board has not recognised a provision for the 583 equal pay claims it has received. The detail and progress of all outstanding claims is not sufficiently advanced to determine the likelihood of their failure or success, nor to estimate what their value could be. The Board has therefore concluded that any attempt to estimate any potential liability could be significantly misleading. We have included an emphasis of matter paragraph in our audit report to reflect the potentially significant uncertainty arising from these equal pay claims.

## Use of resources

NHS Forth Valley has received significant increases in resources over the past few years, which is consistent with the position across NHSScotland. The Board's RRL has increased from £281m in 2002/03 to £424m in 2008/09, a rise of some 51% during this period.

In 2008/09 the Board achieved an underlying recurring break-even position. A £4.5m surplus is projected in 2009/10 (which includes the £3.525m carried forward from 2008/09) and thereafter a breakeven position to 2013/14. These outturn positions will be achieved on a non-recurrent basis until 2011/12, and various financial risks have been identified by the Board which may impact on the achievement of these plans.

The development of the new acute hospital in Larbert is having a continuing impact on the Board's existing asset base, with significant reconfiguration of assets across Falkirk District Royal Infirmary, Stirling Royal Infirmary and Alloa Health Centre sites being reflected in the 2008/09 financial statements. Accelerated depreciation charges of £6.125m have been incurred for these three sites, although approval from SGHD meant that this did not impact on the Board's RRL outturn.

The new community healthcare facility at Clackmannanshire is near completion, with the Board due to take control of the facility in 2009/10. 2011/12 will see the completion of the new acute hospital building in Larbert.

## Performance

The Board continues to monitor overall performance against HEAT targets and corporate objectives at each Board meeting. The Board is working on producing a similar type of dataset for CHP's however limited progress has been made to date on producing a similar dataset for the acute service function.

Through the CHPs the Board is planning to monitor the social care and health targets which form part of the Single Outcome Agreements. Discussion is ongoing regarding the format of these reports and the reporting frequency.

## **Governance**

Our work on corporate governance focussed on a review of the Board's arrangements to ensure effective systems of internal control, prevention and detection of fraud and irregularity and standards of conduct. We are pleased to report that governance arrangements at NHS Forth Valley are generally strong. Risk management arrangements are continually improving and plans are in place to develop the approach to managing risk and embed this at all levels in the organisation.

The Board has taken a positive approach to NFI in 2008/09 and has addressed the weaknesses identified in 2006/07. Work on NFI was undertaken in a timely manner and matches are currently being investigated.

## **Looking forward**

The successful implementation of the Board's Integrated Healthcare Strategy will be key to the effective delivery of services over the coming years. The new acute hospital at Larbert will have a phased implementation of clinical services in the two years after completion of construction work in 2011/12. The £4.5m surplus projected for 2009/10, combined with £7.9m of funding banked with the Scottish Government Health Directorates (SGHD) in 2006/07 from the Bellsdyke land disposal, will be used to help meet the estimated costs associated with the move to the new hospital.

Along with significant strategic change, the Board also has to manage the challenges posed by the current economic environment. The Board has forecast that a real-terms cash efficiency saving of £16.417m is required over 2009/10 and 2010/11. This is a significant increase from the £9.5m forecast in the Board's March 2008 financial plans. The Board is looking to identify efficiencies without impacting on front-line service delivery as far as is possible and has identified lead officers with responsibility for meeting these savings targets. The Board continues to adopt a robust and detailed approach to identifying and achieving efficiency savings.

## **Conclusion**

This report concludes our audit of NHS Forth Valley for 2008/09. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Chief Executive and Director of Finance. We would like to thank all management and staff for their co-operation and assistance during our audit.

**Scott-Moncrieff**  
**July 2009**

# Introduction

1. This report summarises the findings from our 2008/09 audit of Forth Valley Health Board, commonly known as NHS Forth Valley. The scope of our audit was set out in our External Audit Strategy and Plan, which was initially presented to the Audit Committee in October 2008 in draft and final in January 2009.
2. The main elements of our audit work in 2008/09 have been:
  - Audit of the financial statements, including a review of the Statement on Internal Control
  - Review of 31 March 2008 balance sheet restated under International Financial Reporting Standards (IFRS)
  - Review of governance arrangements, internal controls and financial systems
  - Best value audit of information management
  - Follow-up audit of the Best Value review of financial management
  - Follow up audit on ICT Infrastructure and eFinancials
  - Review of staff governance arrangements.
3. In addition to this report, we have issued the following detailed reports during 2008/09:
  - Interim management report
  - IFRS report on our review of the Board's restated balance sheet as at 31 March 2008
  - Report on the audit of the financial statements
  - Follow up report on ICT Infrastructure and eFinancials
  - Best Value follow up on financial management arrangements
  - Letter on the outcome of our staff governance review
  - Best value audit of information management

The key issues from these outputs are summarised in this annual report.
4. As part of our audit, we have also made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland's Public Reporting Group.
5. This report will be presented to the Auditor General for Scotland and will be published on Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

# Financial statements

## Introduction

6. Financial statements are a key way for NHS Forth Valley to account for its stewardship of the resources made available to it. In this section we summarise the issues arising from our audit work on the financial statements.

## Our responsibilities

7. 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
  - whether the information in the operating and financial review is consistent with the financial statements
  - whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).
8. We also review the Board's 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

9. The Board approved its annual accounts on 5 June 2009. We are pleased to report that our independent auditors' report expresses an unqualified opinion on the financial statements of the Board for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements. An "emphasis of matter" paragraph has been added to our auditors' report regarding the uncertainty surrounding the Board's exposure to equal pay claims.
10. The annual accounts were submitted to SGHD and the Auditor General for Scotland prior to the 30 June 2009 deadline.
11. We received draft annual accounts and supporting papers of a high standard on 28 April 2009, in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the finance team for their assistance with our work.

## **Issues arising from the audit**

12. We are required by auditing standards to report to the Board the main issues arising from our audit of the financial statements. On 5 June 2009, we presented our Report on the Audit of the Financial Statements to the Audit Committee. Three issues were identified within that report:

- the need for separate identification and accounting for intangible assets
- suggested refinement of the Waste Electrical and Electronic Equipment Regulations (WEEE) provision
- arrangements to take forward and resolve equal pay claims

13. We have also identified the following matters for management attention:

### ***Board lease register***

The Board created a central register of leases as part of the IFRS restatement exercise in 2008/09 and it plans to refine and update the register to ensure the completeness and accuracy of the information held. The 2007/08 comparatives in the lease commitment note to the accounts had to be revised to fully reflect all lease obligations.

An issue with long term leases arose during the audit of the 2008/09 financial statements. The Board proposed to de-recognise Denny Health Centre as a fixed asset, as it had identified that it did not own title to the property. However our review confirmed that the property should continue to be recognised as a fixed asset as the Board has an agreement with Falkirk Council (the owners) to occupy the health centre on a long term basis for a peppercorn rent. The uncertainty appears to have arisen because the agreement to occupy the property, which was entered into with the Council several years ago, has never been completed, signed or centrally recorded.

As part of refining the central lease register the Board should look to identify all instances where it is contractually obliged to put leased property back to its original state at the end of the lease term. Appropriate provision should be made in the accounts to reflect such expected costs.

**Action plan point 1**

### ***Inter-board balances***

The NHS Annual Accounts Manual required balances between NHS Boards to be agreed by 17 April 2009. NHS Forth Valley was still trying to reach agreement with NHS Education for Scotland (NES) on an inter-board balance in mid May 2009. Agreement of inter-board balances appears to be a recurring problem, with issues arising in 2007/08 and 2006/07 with NHS Lothian (the NHS Lothian issue having since been raised through the SEAT Directors of Finance meetings for resolution). Whilst we appreciate that agreement of these balances relies equally on the counterparty, NHS Forth Valley should continue to do all it can to agree balances with other boards on a periodic basis during the course of the financial year to minimise disputes at the year end and ensure that any discrepancies can be resolved by the deadline dates.

**Action plan point 2**

### ***Remuneration payments to a Non Executive Director***

Non-executive board members should receive their remuneration net of deductions (PAYE and national insurance) through the payroll system, in line with regulations set out by HM Revenue and Customs (HMRC). This is because HMRC generally treats non-executives as “officers” for tax purposes. During our audit, we identified that one non-executive board member is receiving remuneration gross of tax and NI, rather than being paid the net amount through the payroll system. In addition to statutory deductions, the Board is also liable for employer's NI being paid.

The Board would be held liable by HMRC for any non-compliance with statutory obligations, any underpayment of employer's NI and any penalty or interest. It is important that this issue is investigated and resolved as soon as possible and that the Board formally confirm the approach to be adopted for payment of the member's remuneration.

**Action plan point 3**

### **Equal pay**

14. 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”. The Equal Pay Directive made it clear that all such discrimination should be eliminated from all aspects of remuneration. The National Health Service in Scotland has received a number of claims for backdated pay increases, arising from this requirement. The NHS Central Legal Office (CLO) coordinates the NHSScotland approach to this issue.
15. As at 31 March 2009, NHS bodies had received over 12,000 claims and these had been referred for attention to the CLO. It is possible that these claims represent a current liability for NHS boards generally. There were 583 grievances or employment tribunal claims registered against NHS Forth Valley.
16. The Board has followed the national lead and has not recognised a provision for the claims, on the basis that the detail and progress of all outstanding claims is not judged to be sufficiently advanced to determine the likelihood of their failure or success, nor to estimate what their value could be. The Board has concluded that any attempt to estimate any potential liability could be significantly misleading. A contingent liability is being disclosed in the notes to the accounts, with the narrative disclosure consistent with other Boards across Scotland.
17. Our audit report has been modified to include an emphasis of matter regarding the uncertainty surrounding the Board's exposure to equal pay claims. We strongly encourage management, working with SGHD and other NHS Boards, to form a view of the potential liabilities as soon as possible.

**Action plan point 4**

### **International Financial Reporting Standards (IFRS)**

18. As announced by the Chancellor of the Exchequer in his Budget report on 12 March 2008, government departments and other public sector bodies will prepare financial statements under



IFRS from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish government departments, executive agencies, health bodies and non-departmental public bodies will be required to produce shadow IFRS based accounts for financial year 2008/09 (with the exception of bodies reporting under the Charities SORP). This will therefore include a restated balance sheet as at 1 April 2008.

19. We undertook a review of the Board's opening 2008 IFRS balance sheet in February 2009 and reported our findings and recommendations to the Audit Committee. Our report set out a series of actions for the Board to consider when completing the full restatement exercise. The most significant of these were that the Board should continue to fully consider IFRS implications on its PFI agreements and consider the impact of the 2008/09 asset revaluation exercise on the revaluation reserves.

#### **Action plan points 5 and 6**

20. The 2008/09 accounts must be restated on an IFRS basis by 30 September 2009 and an audit review of these accounts will be completed by 30 November 2009.

#### **Common chart of accounts**

21. The Board's finance team continue to monitor any developments to establish a common chart of accounts for NHS Scotland. The Accounting Services Manager is the key officer in this process, leading a periodic review of the accounting code structure to ensure that it remains consistent with the latest national guidance.

#### **Statement on Internal Control**

22. As part of our audit we have considered the Board's Statement on Internal Control, included within the annual accounts. We are satisfied that the Statement complies with the Scottish Ministers' guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work.

#### **Regularity**

23. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors 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 Scottish ministers. We have issued an unqualified opinion on the regularity of transactions.
24. We have also concluded that the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, and that information which comprises the Financial Performance and Position section of the Directors' Report included with the Annual Accounts is consistent with the financial statements

# Use of resources

25. This section of the report sets out our main findings from our review of how the Board manages its key resources in terms of:

- Its financial position;
- Management of assets; and
- The use of information and communication technology.

## The Board's financial performance in 2008/09

26. The Board is required to work within the resource limits and cash requirements set by SGHD. As shown in table 1 below, NHS Forth Valley has met all of its financial targets.

**Table 1 – Performance against financial targets**

| Financial Target       | Target<br>£000s | Actual<br>£000s | Underspend<br>£000s | Target<br>achieved |
|------------------------|-----------------|-----------------|---------------------|--------------------|
| Revenue Resource Limit | 423,973         | 420,448         | 3,525               | Yes                |
| Capital Resource Limit | 10,101          | 10,101          | 0                   | Yes                |
| Cash Requirement       | 446,200         | 446,200         | 0                   | Yes                |

*(Source: Forth Valley Health Board Annual Accounts 2008/09)*

27. NHS Forth Valley achieved a surplus against its Revenue Resource Limit (RRL) of £3.525m. This surplus represents an underspend of 0.8% and is therefore within the 1% carry forward threshold.

28. The surplus is consistent with forecasts presented to the Board at the start of the year and is in line with plans to meet the transitional costs of implementing the Integrated Healthcare Strategy, including bringing the new acute hospital into operation.

29. Performance against financial targets can be affected by non-recurring funding and expenditure. To gain a better understanding of the Board's financial position we have analysed the Board's 2008/09 outturn into recurring and non-recurring items, as shown in Table 2.

**Table 2 – Achievement of 2008/09 surplus**

|   | <b>£000s</b>        |
|---|---------------------|
| Recurring income  | 412,500             |
| Recurring expenditure   | (412,700)           |
| Recurring savings   | <u>200</u>          |
| <b>Underlying recurring surplus/deficit</b>                                       | <b>0</b>            |
| Non-recurring income  | 11,500              |
| Non-recurring expenditure   | (11,900)            |
| Non-recurring savings   | 3,900               |
| <b>Non-recurring surplus/(deficit)</b>  | <u><b>3,500</b></u> |
|   |                     |
| <b>Financial surplus /(deficit)</b>   | <u><b>3,500</b></u> |
|   |                     |
| <b>Underlying recurring surplus/(deficit) as a percentage of recurring income</b> | <u><b>0%</b></u>    |

*(Source: Assistant Director of Finance – Planning and Coordination)*

### **Achievement of recurring balance**

30. In 2008/09 the Board achieved an underlying recurring break-even position, reflecting the fact that services have been managed within the Board to ensure there is no gap between the cost of on-going activities and core funding received. This is in line with the Board's projections and consistent with the 2007/08 position. Table 3 shows the Board's surplus against its RRL split between recurring and non-recurring for the last three years.

**Table 3 – Recurring and non-recurring surplus and deficit 2006/07 – 2008/09**

|                                | 2006/07 | 2007/08 | 2008/09 |
|--------------------------------|---------|---------|---------|
|                                | £000s   | £000s   | £000s   |
| Recurring (deficit)/ breakeven | (2,500) | 0       | 0       |
| Non-recurring surplus          | 3,090   | 2,000   | 3,525   |
| Total surplus                  | 590     | 2,000   | 3,525   |

*(Source: Previous annual audit reports)*

### **Capital Resource Limit**

31. The Board's Capital Resource Limit (CRL) for 2008/09 was £10.101m. During the year the main areas of capital expenditure were £1.082m on initial equipping costs of the new Clackmannanshire Health Centre along with £0.754m and £0.796m on building works at Langlees Dental Practice and Meadowbank Health Centre respectively.

### **Impact of the Integrated Healthcare Strategy on the 2008/09 Annual Accounts**

32. To realise the Board's vision of "improving healthcare for the people of Forth Valley", the Board plans to deliver the majority of acute healthcare services from a single site in Larbert. The Board's Integrated Healthcare Strategy states that "this will be supported by fully integrated and enhanced primary and community services" including community hospitals in Falkirk, Stirling, Bo'ness and Clackmannanshire, to support people in or as close to their own homes as possible. The new single site in Larbert and the new community hospital in Clackmannanshire are being funded through the Private Finance Initiative (PFI).

#### ***Private Finance Initiative – Future Financial Implications***

33. Work continues to progress on both of the Board's PFI projects in Larbert and Clackmannanshire. The new acute hospital in Larbert is expected to be completed by July 2011. The hospital will become operational in three phases with the Board taking control of phase one in May 2010 and the first patients being treated in July 2010. The second phase is due for completion by September 2010 and final completion by July 2011. The Board expects to take control of the Clackmannanshire community health facility imminently.

34. The impact on the Board's financial statements of the Integrated Healthcare Strategy in 2008/09 has been mainly the write down of surplus property and the disposal of the land at Bellsdyke.

#### ***Write down of property - Accelerated depreciation***

35. Where the Board has approved a decision to close a property (or a part thereof), the NHS Boards Accounts Manual requires the Board to write the value of the property down to its net realisable value over the asset's remaining life. This is known as accelerated depreciation. Plans to

establish both Falkirk and District Royal Infirmary and Stirling Royal Infirmary as community hospitals as part of the service reconfiguration will result in elements of the existing facilities becoming surplus to requirements.

36. NHS Forth Valley incurred accelerated depreciation charges of £6.125m in 2008/09 in relation to elements of both infirmaries as well as Alloa Health Centre. The accelerated depreciation charge is included within the total depreciation charge of £14.938m. SGHD agreed to fund the impairment and so there has been no impact on the Board's RRL outturn position.

### **Bellsdyke disposal**

37. The Board signed a development agreement in July 2001 with partners Persimmon Homes Limited and Cala Management Limited (the developers) for the development of the Bellsdyke site. The Board recognised a gain of £7.9m in the 2006/07 financial statements in relation to Bellsdyke disposals. It agreed with the (then) Scottish Executive Health Department that this would be deducted from the 2006/07 RRL and reallocated to later years to ease the expected pressures arising from the transitional costs of the healthcare strategy.
38. During 2008/09 the cost of the abnormal works during the year exceeded the gross proceeds for the plots of land disposed of and therefore the Board recognised a loss on disposal in its 2008/09 financial statements of £1.47m.
39. The Bellsdyke development is not expected to be completed until 2014 at the earliest and although the Board recognised a loss in 2008/09 it is expecting to achieve a significant overall gain on disposal for the whole site.
40. The payment stream between the developers and the Board is set out in the development agreement and is also linked to the receipt of detailed planning permission. The Board does not receive all of the payments upfront and consequently recognises a debtor for income recognised but not yet received.

### **Financial plans**

41. The Board has prepared a 5 year financial plan covering the period 2009/10 to 2013/14. We have reviewed these forecasts and the assumptions on which they are based appear reasonable. The plan clearly identifies the risks which may prevent the Board from achieving its forecasts and, in doing so, aims to give a balanced assessment of the future funding position to be faced by NHS Forth Valley. Table 4 provides a high level summary of the 2009/10 plan.

**Table 4 – Forecast financial outturn 2009/10**

|                                      | <b>£000s</b>          |
|--------------------------------------|-----------------------|
| Recurring income                     | 416,800               |
| Recurring expenditure                | (427,900)             |
| Recurring savings                    | 2,200                 |
| <b>Underlying recurring position</b> | <b><u>(8,900)</u></b> |
| Non-recurring income                 | 19,800                |
| Non-recurring expenditure            | (6,400)               |
| Non-recurring savings                | 0                     |
| <b>Balance of non-recurring</b>      | <b><u>13,400</u></b>  |
| <b>Projected surplus</b>             | <b>4,500</b>          |

*(Source: Assistant Director of Finance – Planning and Coordination)*

42. The non-recurring income in Table 4 includes the Board's £3.525m surplus brought forward from 2008/09.
43. The Board intends to use this cumulative underspend for the implementation of its Integrated Healthcare Strategy, particularly the dual running costs relating to the move to the new acute hospital and the revision of the community hospital estate. This is a key element of the Board's funding plans and has been included in the Board's risk assessment which underpins the 5 year financial plan.

## **Funding**

44. NHS Forth Valley has received significant increases in resources over the past few years with the RRL increasing from £281m in 2002/03 to £424m in 2008/09, representing a rise of some 51% during this period. This increase in funding has been used to match increased expenditure including the impact of pay modernisation, challenging service delivery targets and costs associated with the implementation of the Healthcare Strategy.
45. Funding to NHS boards has previously been calculated under the Arbutnott formula. The NHSScotland Resource Allocation Committee (NRAC), established in 2005 to review the Arbutnott formula, proposed alternative funding distribution proposals.
46. NHS Forth Valley is an 'NRAC gainer' meaning that the Board would expect to receive a funding uplift in excess of the national average. Under NRAC, NHS Forth Valley's target share of

resources is 5.47%. For 2009/10 the Board has only received a 5.297% share of resources (which represents a move of 0.007% towards parity from the 5.29% which it received in 2008/09). The Board has included a further uplift to move towards parity in its financial plan for 2009/10 and this has been confirmed by SGHD. Another parity uplift is assumed in the 2010/11 financial plan but no further moves towards parity have been budgeted for in the five year financial plan submitted to SGHD.

47. Based on the above, the Board believes it is under resourced in comparison to other Boards and has recognised this within the financial risk schedule underpinning the financial plan. Other future funding and spending assumptions include 2.4% pay increases, 2% price increases and 6% prescribing increases, coupled with increases of £0.6m per annum for new drugs.

## **Cost pressures**

48. One of the biggest local costs is the implementation of the Board's Integrated Healthcare Strategy. In addition to this, pay modernisation continues to be one of the largest cost pressures faced by the NHS in Scotland, resulting in substantial additional recurring costs. There is a detailed five year financial risk assessment framework in place within the Board to help identify, appraise and monitor the financial impact of programmes and policies.
49. The Board faces similar pressures to those being encountered across the NHS in Scotland, including demographic change, pay and price increases, drug cost increases, health improvement initiative costs and expenditure in relation to reducing patient waiting times. For example, every 0.5% of pay uplift costs the Board £0.95m per annum.
50. The Chancellor's April budget report identified additional efficiency cost reductions of £5 billion across the public sector from April 2010. There has been no further clarification of where these reductions will be made and the impact that this will have on NHS Forth Valley. The Board has identified this as a risk in its financial risk assessment.

## **Additional allocations during the year**

51. Health boards are informed of their core funding from SGHD before the start of each financial year and receive additional allocations throughout the year. NHS Forth Valley's total RRL increased to £423.973m at the year end, from an initial £375.506m in April 2008, as more funding was confirmed in the monthly update statements from SGHD.
52. The additional allocations received in year are normally notified to the Board in advance and can therefore be incorporated into the financial plans. The Board periodically finds itself with oral confirmation of allocations each month without formal resource allocation letters until some time later. The funding details contained in the resource allocation letters can also alter, requiring detailed scrutiny by the Board of all allocation letters received.
53. As was the case in 2007/08 the final allocation letter was not received until some time after the accounts had been produced. In 2008/09 the final RRL was £36,000 lower than had been anticipated in the monthly monitoring schedules.

## Savings plans

54. Table 5 notes the cash savings achieved by the Board in 2008/09. These savings were identified through a mixture of specific efficiencies highlighted at the start of the financial year and “in-year” programmes identified on an ongoing basis.

**Table 5 – Cash savings achieved in 2008/09**

| Source of savings             | Recurring Savings<br>£000s | Non-recurring Savings<br>£000s | Total<br>£000s |
|-------------------------------|----------------------------|--------------------------------|----------------|
| Prescribing                   | 200                        | -                              | 200            |
| Procurement                   | -                          | 150                            | 150            |
| General                       | -                          | 3,560                          | 3,560          |
| Local Savings                 | -                          | 190                            | 190            |
| <b>Total savings achieved</b> | <b>200</b>                 | <b>3,900</b>                   | <b>4,100</b>   |

*(Source: Year-end Board Finance Report)*

55. The Board's Financial Plan for 2009/10 includes a significant recurrent shortfall of nearly £8.9m. This is included within the financial forecast in Table 4. Whilst this recurrent shortfall is expected to be more than offset by a large non-recurring surplus in 2009/10, returning to overall recurring financial balance depends on significant financial savings being achieved. This is also the case in future years.

## Efficiencies

56. Efficient government savings include not only cash releasing savings but also savings which arise when the Board can increase operations without increasing costs, such as reducing waiting times through efficient provision of services. The Board has achieved the 2% per annum target.
57. The Board has an established Performance Management Group to oversee the Efficiency Plan. Members of the senior management team have been appointed as leads for each targeted area. The Board has forecast that a real cash efficiency saving of £16.417m is required over 2009/10 and 2010/11 to return to recurring breakeven. This is a significant increase from the £9.5m forecast in the Board's March 2008 Financial Plans. The Board has identified a range of areas where it believes savings can be made without impacting on service delivery including a significant reduction in corporate budgets, improved productivity and efficiency to meet targets including efficient use of new funding from SGHD. Specific areas where the Board is focussing on making



real cash efficiency savings are corporate services (£1.862m), prescribing efficiencies (£3m), use of new monies (£3m) and the service redesign project (£7.5m).

## Capital grants

58. During 2008/09 the Board spent £3.4m on capital grants to other public bodies for the purposes of improving or procuring fixed assets from which the Board's residents will directly benefit. This included £1.895m to Falkirk Council for the new acute hospital transport enabling works, relating to road development at the Larbert site. A £621,000 grant was also paid to Stirling Council for development of the Peak Sports Village.

## Financial management

59. The Board's scheme of delegation outlines duties and responsibilities of executives, non-executives, senior managers and budget holders. The Board produces five-year financial and capital plans which are submitted to SGHD annually. The Board continues to monitor performance at every meeting through its executive and financial performance reports. These reports ensure that the Board is adequately informed of performance in a timely manner.

60. A revised performance reporting format was presented to the Board in August 2008. The new format was designed to streamline reporting and acknowledge linkage of the Corporate Plan to the Local Delivery Plan (LDP) HEAT targets, Local Health Plan actions and Better Health: Better Care.

61. The Board's finance staff work closely with services to ensure that robust reporting information and effective financial support are available.

## Follow-up Best Value review of financial management

62. In 2007/08 Audit Scotland introduced its approach to the audit of Best Value in the NHS, in the form of 'Use of resources'. There are seven strands to this approach, and the first area to be covered in 2007/08 was financial management. Our Best Value report on financial management was issued in 2007/08 and followed up in 2008/09. The results of this follow up were presented to the Audit Committee in June 2009. Table 6 summarises these results.

**Table 6 – Results of Best Value follow up audit**

| Priority | At June 2008              | At April 2009                |                       |                             |
|----------|---------------------------|------------------------------|-----------------------|-----------------------------|
|          | Number of Recommendations | Fully Completed/ Implemented | Satisfactory Progress | No Progress/Not Implemented |
| 1 (high) | -                         | -                            | -                     | -                           |
| 2 (med)  | 2                         | 1                            | 1                     | -                           |
| 3 (low)  | 3                         | 3                            | -                     | -                           |

63. We concluded that the Board has put satisfactory arrangements in place to address the issues raised in our original report.

## **Best Value review of information management**

64. The Best Value review for 2008/09 was on information management. This took the form of a series of best practice questions. The Board carried out a self-assessment which we then validated.
65. Our review involved meetings with the Chief Executive, Director of Finance and Director of Strategic Access and Capacity Planning to validate the Board's own evaluation. We concluded that the Board is making good progress on improving its information management arrangements. We were pleased to note that the Information Services team has been an active participant in some projects to improve service delivery and this should be extended to all service areas. Management were also found to be committed to the development of an information strategy that will be integrated with the eHealth Strategy.
66. As part of this review, we were asked to provide a summary judgement on the capacity of the Board to improve its information management, using a scale of:
- Poor – i.e. weak capacity which is unlikely to deliver necessary performance improvements.
  - Uncertain – i.e. some improvement capacity, but the likelihood that it will deliver improvement is uncertain.
  - Promising – i.e. good improvement capacity, but little track record of delivery.
  - Excellent – i.e. very strong improvement capacity backed up by a track record of delivery.
67. Our summary judgement was that *“the Board potentially has excellent capacity to improve its information management. This is contingent on the development and implementation of an information strategy. This process has already commenced and will be overseen by the eHealth Programme Board.”*

## **Management and use of ICT**

68. During the 2008/09 financial year, we performed a follow-up review of the ICT Infrastructure and eFinancials report issued during 2006/07. The original report contained 17 high priority issues. It was therefore important to determine the progress made by the Board in implementing the recommendations from that report.
69. There have been positive steps taken by the Board to address the recommendations identified in our 2006/07 report. All high priority recommendations are either completed or are in the process of being completed. In total, 34 of 51 recommendations had been completed. We recognise that a number of the outstanding recommendations are being addressed through a series of actions/projects and will take time to implement.
70. ICT have developed a Service Improvement Plan (SIP) to address many of the recommendations contained within our report. The aim of this is to ensure that the programme of change in ICT is addressed in a controlled manner rather than through a series of ad-hoc actions.

71. The Board has developed and approved two key information management and technology-related strategies (eHealth and Information Governance strategies). The eHealth Strategy was revised against the recently published National eHealth Strategy. The first tranche of eHealth priorities was approved by the Board's Executive Group in July and was further updated to formalise the link with the Board's financial plans and allow identification of the financial resources available to the Board to deliver the eHealth Strategy. The Information Governance Strategy provides clarity of direction across the Board, handles information about patients, clients and employees, in particular personal and sensitive information. The strategy was originally developed by the Information Governance Group and was approved by the Clinical Governance Committee.

## **Asset management**

72. In January 2009 Audit Scotland issued a national report on how the NHS is strategically managing its assets to support effective service delivery. The report was presented to the NHS Forth Valley Audit Committee in March 2009 and is due to be presented to the Strategic Planning and Property Committee.
73. National guidance is currently being prepared to ensure that there is consistency across Scotland on any route forward emanating from the report.
74. The Bellsdyke land disposal is the only significant asset disposal the Board made in 2008/09.

## **Procurement**

75. During 2008/09 the Board utilised the services of Health Facilities Scotland (HFS) to purchase £1.4m of equipment for the Clackmannanshire community hospital. The Board expects to utilise the services of HFS for equipping the new acute hospital at Larbert, which has an equipment budget of some £34.5m. Management will use the experience gained from the Clackmannanshire procurement process to maximise the efficiency of the process for this larger exercise.

## **People management**

### **Agenda for Change**

76. NHS Forth Valley has made further progress with the implementation of Agenda for Change (AfC) during 2008/09. NHS Forth Valley's AfC accrual as at 31 March 2009 is £2.235m (2007/08: £5.473m). 99% (4,445 of 4,497) of all continuously-employed staff had been assimilated as at 31 March 2009 although 793 were awaiting a formal review or revisit.
77. The Board's AfC accrual comprises the remaining assimilations as well as the estimated impact of post reviews and revisits. We have reviewed the key assumptions that the Board has made when determining the accrual and consider these to be reasonable.

## **Benefits realisation**

78. The objectives within the Pay Modernisation Benefits Delivery Plan reflect NHS Forth Valley's corporate objectives and strategic priorities.
79. The Board's Benefits Realisation Plans, which include plans to develop the Knowledge Skills Framework (KSF) agenda, are reviewed and signed off by the Workforce Modernisation Board which reports into the Staff Governance Committee. Updates are provided to this Board on the current position including an action plan with progress to date, actions still to be taken and the anticipated result of the actions.

## **Staff governance**

80. In April 2009 we met with the Deputy Director of HR to discuss the Board's Staff Governance submission to SGHD. Our work included an examination of the Self Assessment Audit Tool (SAAT) process which encompassed a review of:
- the Staff Governance Action Plan for 2008-10;
  - the findings from the 2008 staff survey;
  - the staff survey action plan for 2009-10;
  - the Board's 2008-09 Mandatory Statistics; and
  - the accompanying documentation which supported the above.
81. We found that the 2008-10 action plan clearly set out the key themes which the Board is taking forward in relation to staff governance and the actions were included under the five key staff governance strands. Although this was a two year plan we found that the majority of the actions had been achieved by the 2008-09 year end but some were also considered to be 'ongoing.'
82. Our review of the staff survey action plan found that each of the areas for improvement identified by the 2008 staff survey were clearly outlined for action although the majority do not have specific deadlines other than "2009/10". We agreed that this was appropriate in cases where reliance was being placed on third parties, over whom the Board has no control to ensure specific deadlines are achieved.
83. We welcome the additional work that the Board has taken forward arising from achieving liP accreditation across the whole system in March 2008. This highlighted that improvements were required in the area of staff engagement and the Board has already undertaken a consultation exercise to further explore this area. An action plan has since been devised and it is clear that work is underway to progress with this.
84. We will review the Board's progress in this area in 2009/10. In addition, we are currently awaiting confirmation from Audit Scotland and SGHD on audit's role with the Staff Governance SAAT process in 2009/10.

# Performance

## Introduction

85. To ensure effective performance the Board needs both a clear strategy that defines what it aims to achieve and effective mechanisms to monitor delivery and measure its outputs.

## Vision and strategic direction

86. The vision for the Board remains unchanged; "*To Improve Health and Healthcare for the people in Forth Valley.*" During 2008/09 NHS Forth Valley continued to implement its Integrated Healthcare Strategy. Governance within the Strategy was strengthened in the early part of the year with changes put in place to ensure that the Healthcare Strategy Programme Board was in a position to oversee progress across all strands of activity, reporting through to the Strategic Projects and Property Committee and the Board. Seminars to update the Board on detailed aspects of the Strategy have been undertaken and are to continue.

87. In March 2009 structural works were completed at the new acute hospital and work has now begun on the interior of the hospital. The new acute site is scheduled to be largely complete by the end of 2009. The hospital will be delivered in three phases, with the first patients to be seen in the hospital in the summer of 2010 and the last phase to be complete by 2011.

88. The Clackmannanshire facility is now complete with final discussions on handover continuing. To ensure a whole system, integrated and streamlined approach to the delivery of healthcare across Forth Valley, the Board is planning to use its Falkirk and Stirling sites as community hospitals once the transfers are made to the new acute site. As part of this strategy the Board has been exploring various scenarios for taking this forward.

89. Whilst progress on the major build projects remains critical to delivery of the strategy, a key focus has also been on the development of the clinical models and on transition planning. The change and improvement plan is being progressed and underpins the overall strategy for reviewing models for urgent and emergency care, primary and community care, elective care and diagnostics and in-patient transformation. Ensuring safe and consistent patient care through all patient pathways is a core aspect of the change and improvement plan.

## Performance management

90. The Board agreed the Forth Valley Corporate Plan in March 2008 which brings together the local health plan and local delivery plan (LDP) supported by the financial plan and the capital plan. This ensures that those activities over and above key health improvement, efficiency, access and treatment (HEAT) targets within the LDP are considered and detailed within local planning arrangements. This format ensures effective communication and translation of targets and measures.

91. The workforce modernisation strategy, which supports the integrated healthcare strategy, was approved by the Board in Autumn 2007. The workforce modernisation board considers workforce planning and workforce development issues such as the implementation of the knowledge skills framework and the application of personal development plans.
92. The corporate objectives have been refreshed and categorised as 'aims' recognising that these represent longer term outcomes and link to the developing approach defined in the National outcomes framework. Objectives have been reviewed and presented as intermediate outcomes which support the overall aims. Priority actions are the key areas that require focus within the year. Embedded within these actions are priorities to help deliver the integrated healthcare strategy and the change and improvement plan which is aligning clinical models to the strategy. The approach aims to embed HEAT targets and help to deliver broader issues for focus such as hospital acquired infection (HAI) and child protection. These priority areas are shaping the development of the personal objectives of executives and senior managers.
93. To ensure that the Board can monitor progress against its aims, objectives and targets, it is essential that NHS Forth Valley has adequate performance management information. We noted in 2007/08 that the Board did not have effective information systems in place to provide all of the required performance information necessary. Progress has been made by the Board to develop the systems but there is still work to be done. All HEAT target information is available and operational data is getting better. A focus is required on mainstreaming core activity information as staff still need to undertake 'special projects' if activity information is required for an area where information is generally not collated. The Board is now looking to develop an Information Management Strategy and meetings have been set up with key stakeholders to determine data requirements.
94. Performance reports continue to be presented at each Board meeting. An overview page shows, at a glance, where the Board sits against each of its HEAT targets and whether it is on track to meet them. Further detail within the paper provides commentary on each of the HEAT targets and also the Board's local targets which are set out within the corporate plan. The Board is now looking to develop similar reports for the CHPs and acute services. The CHP reports are being tailored to the individual needs of each CHP and good progress is considered to be being made with this. However limited progress has been made with producing a similar report for acute services.

#### **Action plan point 7**

### **Performance overview**

95. The Board's performance against its HEAT targets for 2008/09 was reported to the Board at its meeting in May 2009. Progress was as per table 7.

**Table 7 – Overall progress against HEAT targets**

| <b>Progress definition</b> | <b>Number</b> |
|----------------------------|---------------|
| Above or on target         | 21            |
| Within tolerance of target | 10            |
| Below target               | 2             |

96. The Board has performed well in 2008/09 to ensure that 21 targets have been met or are on track to be met. We reported in our annual report in 2007/08 that the Board continued to have difficulty in meeting all three of the criteria for the delayed discharge target. The Board however met all three delayed discharge targets in January 2009 and sustained this position at the year end. The Board and its partners recognise that maintaining this position will be a challenge.
97. The two areas which were reported as being below target in 2008/09 were:
- Absence management; and
  - Managing emergency admissions for patients over 65 years old.
98. Absence management continues to be a priority for NHS Forth Valley. The target of 4% by March 2009 was not met with the Board reporting a position of 4.74%. This was an improvement from February's outturn of 4.93% and January was significantly higher at 6.10%. The focus on attendance is to continue in NHS Forth Valley and is to be a key focus of the Performance Management Group.
99. The Board also reported that managing multiple admissions for over 65's was increasingly challenging with performance in 2008 having declined in comparison to 2007. The target for March 2009 was 32.8 admissions per 1000 of the population. The Board's most recent reported position was 45.1 at December 2008. The Board has partly attributed this to the ageing population in Forth Valley but it is recognised that there are also other contributing factors to this. Management of this target is to be taken forward by the CHPs to reduce re-admission levels and through the redesign of emergency care.

## **Partnership working**

100. Partnership working in the NHS is the term used to define joint working with a number of different parties including local authorities, other NHS Boards, the voluntary sector as well as staff groups. The need to work collaboratively is set out in both the Scottish Executive's *Partnership Agreement* and the Scottish Government's *Partnership for Care* which states that improvements in the health of the people of Scotland cannot be achieved by SGHD or the NHS boards alone. *Delivering for Health* introduced Community Health Partnerships (CHPs) as the main vehicle for improving

services at a local level and CHPs are viewed as the main agent for partnership working with local authorities and the voluntary sector.

101. Various steps have been taken by the Board to realise the benefits of partnership working and one recent development with Stirling Council has been the production of a joint framework through which a 'Health, Wellbeing and Social Care' Executive Group has been developed. It has the following remit:

- Overall oversight of partnership activity
- Project progress review
- Considering integration opportunities
- Performance management oversight
- Consideration of partnership and financial framework issues
- Overview of the overall organisational development plan for both organisations

102. Formalising this remit has been a positive step and the Board is now meeting with its other two Council partners to determine how such a remit could be adopted to further enhance partnership working in those areas.

### **Single Outcome Agreements**

103. The Board approved the SOAs for Clackmannanshire, Falkirk and Stirling in May 2009. There is an element of overlap between the SOAs and the targets defined by the LDP. Some targets have an NHS focus whilst others need to be taken forward in partnership. Areas of overlap include:

- Long term conditions
- Community care
- Health improvement / inequalities
- Mental health and wellbeing

104. Each of the three SOAs was developed in a different way and in a different format. There was significant variation in the level and use of targets and measures and interpretation of what needs to be delivered in partnership and the targets which are more likely to be delivered by a single organisation.

105. Work has been undertaken to ensure the appropriate levels of partnership in the development of the SOAs, to ensure that there is sensible integration of relevant measures and that the individual SOAs compliment the HEAT framework. The Board is committed to continuing this work throughout the coming year to refine the approach but needs to develop robust performance management systems as highlighted above to monitor the outcome of the relevant targets. Monitoring is to take place by each of the CHPs however the Board has taken the decision to monitor the targets that they can influence (ie. social care and health targets). The reporting



format for this has yet to be agreed but will clearly be dependent on the information systems available.

#### **Action plan point 8**

106. Financial performance reports presented to each of the CHPs are continuing to evolve to support linkage between NHS Forth Valley's objectives and that of the partnership arrangements. The reports were revised to take into account both Social Work and NHS information. This was to enable the committees to assess the performance of the CHP relevant to NHS Forth Valley as a single system as well as the impact within the local area.

107. CHP and Social Work budgets are generally determined on an aligned basis with the exception of Clackmannanshire Integrated Mental Health Day services where the budget is pooled (under a jointly appointed manager and governed by a formal agreement). Going forward it is envisaged that the CHPs will continue to operate with aligned budgets, although joint commissioning of services in areas such as complex care have become more common to develop an integrated approach.

#### **Regional planning**

108. NHS Forth Valley continues to develop close links with both the east and west of Scotland regional planning groups. Part of this involves considering the sustainability of services across each region and identifying where specialist services cannot be delivered by individual boards, to plan for the continuing expertise to be provided at a regional level. The aim is to help ensure that services are provided at the most appropriate level and by the most appropriate healthcare facility in the region.

109. The West of Scotland regional planning group continues with a series of key workstreams. In 2008/09 work has also been focused on the impact of Modernising Medical Careers, finalising the implementation of the independent review of cancer services, developing models of care for oral and maxillo-facial surgery, delivering the national plan for children's specialist services and on the development of the new children's hospital.

110. Through its agreed workplan, the South East and Tayside planning group has focused on specific areas including managed care networks for adults with learning disabilities, development of a secure regional facility in Fife, the clinical network for eating disorders and delivering the national plan for children's specialist services.

# Governance

111. This section sets out the main findings arising from our review of NHS Forth Valley's governance arrangements as they relate to:

- Corporate governance
- Risk management
- Internal audit arrangements
- Prevention and detection of fraud and irregularity
- National Fraud Initiative (NFI)
- Patient safety and clinical governance
- Public performance reporting
- Shared support services
- Business continuity planning

## Corporate governance

112. Our work on corporate governance focussed on our review of the Board's arrangements to ensure effective systems of internal control, prevention and detection of fraud and irregularity and standards of conduct and prevention and detection of corruption.

113. We are pleased to report that governance arrangements at NHS Forth Valley are generally strong.

## Significant changes in senior positions - Board membership

114. During 2008/09 there were no changes in executive members of the Board. The term of office of two non-executive members ended in the financial year and they have since been replaced.

## Risk management

115. Risk management underpins the system of internal control and is a key element of the corporate governance framework of the Board. We reviewed the Board's overall risk management arrangements during the year and reported our findings in our interim management report. Our conclusion was that risk management is improving, with plans in place to develop the Board's risk management arrangements.

116. Findings from NHS Quality Improvement Scotland's (NHS QIS) second round review of clinical risk management are currently being drafted and agreed with the Board.

## Internal audit

117. The Board's internal audit service is provided by FTF Audit and Management Services (FTF).

118. In accordance with International Standard on Auditing (ISA) 610 – Considering the work of internal audit, *“the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor’s risk assessment.”* Overall, we concluded that FTF provides a service which complies with the NHS internal audit standards and which we can rely upon. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the FTF internal audit team for their assistance during the course of our audit work.

## **Prevention and detection of fraud and irregularity**

119. Our audit has been planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the Board’s arrangements in place to prevent and detect fraud and irregularity.

120. We did not find any indication of fraud and irregularity and concluded that the Board’s internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

## **National Fraud Initiative (NFI)**

121. As part of our governance work, we reviewed NHS Forth Valley’s participation in the National Fraud Initiative (NFI) 2008/09. NFI is undertaken in Scotland in partnership with the Audit Commission, who have been running the scheme in England since 1996. NFI makes use of computerised techniques to compare and match information about individuals held by various public sector bodies to identify potential fraud, error or anomalies. Since its inception in 1996, NFI has realised total savings of £450m across the UK public sector. Scottish NHS bodies first participated in NFI during 2006/07. Total 2006/07 savings in Scotland amounted to £13m.

122. A national report was issued by Audit Scotland in May 2008, based on local auditor findings, on the NFI 2006/07 exercise. NHS Forth Valley was one of six public sector bodies named in Audit Scotland’s report for having a number of weaknesses in its approach to the 2006/07 NFI exercise. (The Board prioritised assimilation and payment for Agenda for Change, which impacted on its NFI work at that time).

123. We are pleased to report that the Board has taken a positive approach to NFI in 2008/09 and has addressed all weaknesses that were identified in 2006/07. Payroll data was submitted to the NFI secure web-based application by the October 2008 deadline, which was then matched by the Audit Commission to datasets from a wide variety of public sector organisations. Consequently the data of NHS Forth Valley was matched against a national database of housing benefit applicants, local authority employees, pensioners, students, deceased persons and failed asylum seekers.

124. The results of these matches were made available in February 2009, through the NFI secure web application to each participating body for further analysis and investigation. NHS Forth Valley began to review the initial matches promptly to filter out the valid cases. We will continue to

monitor the work of the Board during the review of matches and any subsequent investigations that are undertaken.

125. Audit Scotland will again require us to complete a questionnaire in early 2010 on NHS Forth Valley's approach to NFI. This will inform a national report on the 2008/09 NFI exercise. Audit work will be undertaken during our 2009/10 interim audit and results will be reported in our Interim Management Report.

## **Patient safety and clinical governance**

126. Clinical governance refers to the framework through which NHS boards are accountable for continuously improving the quality of their services and safeguarding high standards of care, by creating an environment in which excellence in clinical care will flourish. It is essential that NHS Forth Valley has adequate arrangements in place to ensure the continuous improvement of services in a safe environment.

127. NHS Forth Valley has a clinical governance committee with a core agenda structured around the key strategic objectives set out in the clinical governance strategy. The committee met four times during 2008/09.

128. Clinical governance working groups have been established to aid governance across the Board. These groups include a clinical governance management group, the acute services clinical governance working group, CHP clinical improvement groups, patient focus & public involvement steering group, medical equipment committee, prevention and control of infection committee and a child protection action group.

129. Following a review by NHS Quality Improvement Scotland (NHS QIS) of NHS Forth Valley's clinical governance and risk management arrangements the main themes of the NHS QIS clinical governance standards are now integrated with the Board's clinical governance strategy

## **Public performance reporting**

130. During 2008/09 the Board generated a range of local coverage through public events, regular media releases, newsletters, public meetings and briefings. Some of the topics the Board publicised included health promotion and vaccination drives, life-saving new heart attack procedures and progress on planned projects like the new community hospitals.

131. The Board continues to publicise board meetings, papers and updates on its website. The site is relatively user friendly and provides relevant public information, although links to some of the performance information could be improved.

### **Action plan point 9**

## **Shared support services**

132. The shared support services project, championed by NHS National Services Scotland (NSS), proposes bringing together transaction processing functions with a view to releasing savings for front line services and meeting efficient government objectives.

133. NHS Forth Valley is a "pathfinder" in the e-expenses element of the project. The Board has led on and has successfully piloted an electronic expenses claim system which went live on 30 October 2008. Staff now input their own claims electronically and rollout of the system is progressing; it is anticipated that Forth Valley will reach the target of 50% of applicable staff by July 2009 with complete rollout expected by December 2009. NSS reported that the e-expenses project has made "particularly noteworthy progress" and noted that the programme has made savings in the region of £4.2m against its target for 2008/09 of £1.455m.

## **Business continuity planning**

134. The Civil Contingencies Act 2004 identifies the Board as a Category 1 responder. This means that the Board, amongst other things, is required to develop and maintain business continuity plans (BCPs). Business continuity management (BCM) is also a core component of the NHS QIS clinical governance and risk management standards.

135. The Board has developed a formal framework for business continuity planning and the Director of Public Health is the executive lead. The Board has engaged the services of a contractor to support the development of plans and there is a BCM tactical team, which is chaired by the Director of Public Health. Initial training was provided to a range of staff across the Board which assisted in the identification of local business continuity leads.

136. Further training was provided in relation to business impact assessments. This is an essential part of the business continuity lifecycle as it allows organisations to differentiate between critical and non-critical business functions/activities and to analyse the potential risks/threats to it. We noted however that deadlines have not been set for the production of BCPs, although progress is being made with one department's plan being close to finalisation.

137. Overall, the Board recognises that there is still a way to go in respect of business continuity planning. A review is being carried out of the previous years activities and achievements to identify what resources the Board needs to deliver the BCM requirements successfully. Some areas under consideration are the development of a strategy to coordinate business continuity and emergency planning workstreams to ensure that all potential gaps in continuity planning are identified and addressed. Similarly, a review is pending of the Board's critical business systems/processes to ensure that the plan reflects the priority of services to be recovered in the event of a disaster.

138. The recent Swine Flu outbreak (Influenza A H1N1) has brought the issue of BCM to the forefront of the Board's attention. As a result, the work completed on compiling pandemic flu BCPs has been tested.

# Looking forward

## Financial statements

139. The Board's 2009/10 financial statements are required to be prepared under IFRS. Prior year comparison figures, based on the 2008/09 accounts, require to be restated by 30 September 2009 and will be subject to external audit by 30 November 2009. This follows on from the restated balance sheet exercise undertaken by the Board and which we reviewed between December 2008 and February 2009.

140. A £4.5m surplus is projected in 2009/10 (which includes the £3.525m carried forward from 2008/09) and thereafter a breakeven position to 2013/14. These outturn positions will be achieved on a non-recurrent basis until 2011/12, and various financial risks have been identified by the Board which may impact on the achievement of these plans.

## Use of resources

141. The integrated healthcare strategy will have a significant impact on the delivery of services over the forthcoming years at NHS Forth Valley. The new acute hospital will be completed in 2010/11, with phased implementation of clinical services over the two years thereafter. The strategy includes redevelopment of the existing Falkirk District Royal Infirmary and Stirling Royal Infirmary into community hospitals. The phased transfer will have significant financial implications for the Board with costs of running operations across multiple sites. The Board has also forecast efficiency savings from the new development through integrated service delivery.

142. The Board has predicted that a real cash efficiency saving of £16.417 million will be required over 2009/10 and 2010/11. This is a significant increase from the £9.5 million forecast in March 2008 financial plans. The Board is looking to identify a range of areas where savings can be made that limit the impact on service delivery as much as possible. Corporate budgets, improved productivity and efficient use of new funding from SGHD are key areas of focus for potential savings.

## Performance

143. The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the best value audit and as a result a further toolkit will be issued to us in 2009/10 covering another area of the 'use of resources.'

## Governance

144. Audit Scotland will again require us to complete a NFI questionnaire in early 2010 to assist in the preparation of a national report on the 2008/09 NFI exercise. Work will be undertaken during our 2009/10 audit visits to complete this exercise.

# Action Plan

Our annual report action plan details the more significant financial control weaknesses and opportunities for improvement that we have identified during our final audit visit in addition to any reportable matters arising from our review of performance and governance systems.

The action plans detail the officers responsible for implementing the recommendations and implementation dates. The Board should assess these recommendations for their wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

## Grading

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded. The grading structure is summarised as follows:

- Grade 5      Very high risk exposure - Major concerns requiring Board attention.
- Grade 4      High risk exposure - Material observations requiring management attention.
- Grade 3      Moderate risk exposure - Significant observations requiring management attention.
- Grade 2      Limited risk exposure - Minor observations requiring management attention
- Grade 1      Efficiency / housekeeping point.

## Issues arising from our 2008/09 audit

| No | Title   | Issue identified   | Risk and recommendation   | Management comments   |
|----|---|--|---|---|
| 1  | <b>Lease Register</b><br><br><b>(Para 13)</b> | <p>The Board is planning to update and refine the central lease register it produced as part of the IFRS restatement exercise during 2008/09. We encountered lease accounting issues for the 2008/09 accounts, which we believe a comprehensive central lease register could have helped identify and prevent occurring.</p> | <p>Control over and accounting for lease agreements may not be as strong as they could be.</p> <p>We recommend that the Board refines the central lease register it produced as part of the IFRS restatement exercise to ensure it acts as a comprehensive central register of leases. As part of this process, management should identify any instances where it is contractually obligated to put a leased property back to its original state at the end of the lease term. Appropriate provision should be made in the accounts of any cases arising.</p> <p><b>Grade 3</b></p> | <p>The lease register prepared during 2008/09 as part of the initial IFRS exercise is in the process of being updated as part of the IFRS restatement work scheduled for completion in September 2009.</p> <p><b>Responsible officer:</b> Assistant Director of Finance (Planning and Coordination)</p> <p><b>Implementation date:</b> 30 Sept 09</p> |



| No | Title   | Issue identified  | Risk and recommendation  | Management comments  |
|----|---|---|--|--|
| 2  | <b>Inter-board balances</b><br><br><b>(Para 13)</b>       | <p>The Board had problems agreeing its year end balance with NHS NES. The accounts manual required balances to be agreed by 17 April.</p> | <p>Inter-board balances may be misstated.</p> <p>Going forward, we recommend that action is taken at as early a stage as possible to resolve any discrepancies, to ensure that the financial statements fully comply with the requirements of the accounts manual in future years.</p> <p><b>Grade 2</b></p>   | <p>Agreement of balances have been a recurrent theme with NHS Lothian for a number of years in common with other SEAT Boards due to late receipt of information demonstrating significant financial implications. SEAT Directors of Finance have committed to working with Lothian to reach agreement much earlier during 2009/10 and to agree way forward for 2010/11 onwards.</p> <p><b>Responsible officer:</b> Assistant Director of Finance (Planning and Coordination)</p> <p><b>Implementation date:</b> 30 Sept 09</p> |
| 3  | <b>Non-executive remuneration</b><br><br><b>(Para 13)</b> | <p>One non-executive member is receiving their remuneration gross via the creditors system, rather than through the payroll system.</p>   | <p>The Board would be held liable by HMRC for any non-compliance with statutory obligations, any underpayment of employer NI and any penalty or interest arising.</p> <p>Therefore, it is important that this issue is investigated and resolved as soon as possible and that the Board formally confirm the approach to be adopted for payment of future Board member remuneration.</p> <p><b>Grade 2</b></p> | <p>Options will be prepared for consideration regarding how the situation can be addressed.</p> <p><b>Responsible officer:</b> Director of Finance</p> <p><b>Implementation date:</b> Dec 09</p>   |

| No | Title  | Issue identified  | Risk and recommendation   | Management comments  |
|----|--|---|---|--|
| 4  | <b>Equal Pay</b><br><br><b>(Para 17)</b>             | <p>NHS Forth Valley has received claims in respect of equal pay. In line with the national position, the Board is unable to quantify the risk of its liability, if any, as at 31 March 2009.</p>  | <p>There is a risk that the Board is understating its liabilities and we strongly encourage 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.</p> <p><b>Grade 4</b></p> | <p>Discussions ongoing with CLO and SGHD on a national basis regarding the approach to Equal Pay.</p> <p><b>Responsible officer:</b> Director of Finance/Director of Human Resources</p> <p><b>Implementation date:</b> Mar 2010</p>   |
| 5  | <b>IFRS – PFI Accounting</b><br><br><b>(Para 19)</b> | <p>It is the Board's view that the PFI assets should be shown on the Board's balance sheet under IFRS. This should take effect once the assets are complete, as the PFI provider bears the construction risk until completion. The Board is currently considering prospective accounting treatments and is liaising with SGHD on this matter.</p> | <p>The Board should continue taking appropriate professional advice and continue with the formal review of all PFI projects and the subsequent IFRS-compliant disclosure requirements. This should fully consider financial implications both in the current year and future years.</p> <p><b>Grade 4</b></p>   | <p>This has been consistently highlighted as a significant risk area for the Board. Capital and revenue cost implications have been assessed using the national cost model and the impact has been highlighted to SGHD.</p> <p><b>Responsible officer:</b> Assistant Director of Finance (Planning and Coordination)</p> <p><b>Implementation date:</b> in line with IFRS conversion timetable</p> |

| No | Title   | Issue identified   | Risk and recommendation  | Management comments  |
|----|---|--|--|--|
| 6  | <p><b>Negative revaluation reserves</b></p> <p><b>(Para 19)</b></p> | <p>A revaluation exercise was carried out in 2004 which led to a downward valuation movement on a number of assets and individual asset components. These movements resulted in negative revaluation reserve balances being created.</p> <p>Under IFRS, negative revaluation reserves are not allowed and subsequently the Board has removed the valuations through a direct charge to the General Fund.</p> | <p>Although not specifically impacting on the 1 April 2008 IFRS balance sheet restatement exercise, there may be an impact on the 2008/09 UK GAAP accounts for those assets which have a negative revaluation reserve balance. The 31 March 2009 valuation may indicate that certain negative revaluation reserve balances are not temporary and should therefore be impaired through the Operating Cost Statement in 2008/09. This may impact on timing and values of future reserve movements under IFRS.</p> <p>The Board should consider the results from the 2008/09 estate revaluation exercise to inform this assessment.</p> <p><b>Grade 4</b></p> | <p>The Board will review the impact of the March 2009 revaluation exercise and make the relevant accounting entries to reflect the updated position.</p> <p><b>Responsible officer:</b> Assistant Director of Finance (Planning and Coordination)/Capital Accountant</p> <p><b>Implementation date:</b> in line with IFRS conversion timetable</p> |
| 7  | <p><b>Performance Overview</b></p> <p><b>(Para 94)</b></p>          | <p>Limited progress has been made with developing performance reports for acute services.</p>  | <p>There is a risk that effective monitoring cannot be undertaken to ensure that steps can be taken to address issues as they arise.</p> <p>Performance reports should be developed with appropriate datasets for acute services.</p> <p><b>Grade 3</b></p>  | <p>Agreed.</p> <p><b>Responsible officer:</b> Chief Operating Officer</p> <p><b>Implementation date:</b> Dec 2009</p>  |

| No | Title  | Issue identified  | Risk and recommendation   | Management comments  |
|----|--|---|---|--|
| 8  | <b>Single Outcome Agreement</b><br><br><b>(Para 105)</b>     | Agree reporting format for each CHP to ensure effective monitoring of relevant elements of the SOAs.              | <p>There is a risk that due to a lack of effective performance reporting and therefore monitoring timely action cannot be taken to ensure that relevant SOA targets are met.</p> <p>Monitoring reports should be developed for each of the relevant SOAs.</p> <p><b>Grade 3</b></p> | <p>Agreed.</p> <p><b>Responsible officer:</b> Head of Performance Management</p> <p><b>Implementation date:</b> Feb 2010</p> |
| 9  | <b>Public Performance Reporting</b><br><br><b>(Para 131)</b> | The Board does not provide clear links on its website to easily locate reports on NHS Forth Valley's performance. | <p>There is a risk that stakeholders cannot find relevant, up to date reports on performance</p> <p>Performance reports - or links to performance papers held on the Board's website - should be included in the performance section of the web-site.</p> <p><b>Grade 1</b></p>     | <p>Agreed.</p> <p><b>Responsible officer:</b> Head of Communications</p> <p><b>Implementation date:</b> Sep 2009</p>         |



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