

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 2010

17 June 2010

AUDIT

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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 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 Board is investigating scenarios for its future clinical strategy before seeking external stakeholders' views. In conjunction with this work, management has announced the introduction of bariatric surgical services from June 2010. The financial impacts of the final clinical strategy have yet to be estimated or reflected in the Board's financial plan, however, management has earmarked £5 million of capital funding for the implementation of the final strategy.

We evaluated the arrangements for achieving Best Value surrounding the challenge and improvement environment and found that the Board demonstrated 'better practice' or 'advanced practice' in all areas assessed.

The Board achieved its three financial targets for the year recognising a £1.7 million surplus against its revenue resource limit. This surplus relates to the agreed carry forward for the heart and lung centre. This carry forward will be fully utilised in 2010-11 and additional funding has been agreed from the west of Scotland NHS Boards to meet the services funding gap in future years. Achievement of the current year's outturn included significant overspends in staff and clinical supply costs which were counteracted by the use of underspends in corporate supplies including capital charges.

The capital outturn is £0.3 million under-spent against the capital resource limit for the year, including £1.4 million of funding returned to the Scottish Government Health Directorate during the year. Management has deferred the purchase of a replacement MRI scanner until 2012-13.

The Board has achieved its target level of recurring efficiency savings for 2009-10 and achieved a further £0.5 million of recurring savings. In future years the Board will have to make additional savings in order to achieve a balanced budget which will be challenging. Achievement of these savings will be managed through current financial monitoring procedures and a newly created efficiency and productivity group.

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 fourth of our five-year appointment by the Auditor General for Scotland as external auditors of the 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 overview discussed with the audit committee earlier in the year.

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 2010 and financial plans for 2010-11 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 2009-10 we completed work on arrangements to achieve Best Value through 'challenge and improvement'.

International financial reporting standards

The 2007 Budget announced that central government and health bodies would report under international financial reporting standards ("IFRS"), as adapted by HM Treasury through the financial reporting manual ("FRoM"). The financial statements for the year ended 31 March 2010, including comparative figures for 2008-09, have been prepared on the basis of the FRoM.

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

This report includes an action plan containing one area for development / improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2009-10 audit. 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 during our work.

Service redesign

There have been significant changes to the services the Board provides and the wider NHS in Scotland over the last few years. Management is now considering the future role of the Board. Service redesign is key to ensuring a clear vision for the future and responsiveness to changing healthcare needs.

The Board has embarked on a project to consider its future through developing a long-term clinical strategy. There is a formal programme structure for this project led by a clinical strategy programme board. The first phase of developing the strategy involved considering the capabilities of the current hospital and hotel facilities and the aspirations for services which could be provided. There are now three broad scenarios which are being tested through considering patient pathways with recognition of the Scottish Government's 18 weeks referral to treatment target. After this process has been completed, management will seek the views of external stakeholders.

The initial development process identified a national capacity shortage for bariatric surgery. These procedures can be readily provided by the Board and will complement existing general and plastic surgery. Management has recently announced that it will begin providing this service initially to three Scottish health boards from June 2010 to enable a transition of patients from the private sector.

Partnership working

Management continues to maintain effective partnership relationships with territorial boards. Waiting list allocations for 2010-11 have been agreed which show a large change in the case mix of patients compared with previous years. The hospital will also continue to provide a 'see and treat' programme in partnership for NHS Dumfries and Galloway. Management also continues to be involved in discussions with some territorial boards to receive direct referrals of patients.

Scrutiny and governance

The risk management and the clinical governance committees have been amalgamated into a single group reporting to the board. A review has been conducted into the effectiveness of the board applying NHS Scotland's board development framework. An action plan for development has been produced and progress against this plan will be monitored during board meetings.

Patient safety and clinical governance

Patient safety needs are an integral part of the future clinical strategy in line with the Scottish Government's *Better Health, Better Care* guidelines. NHS Quality Improvement Scotland (NHS QIS) conducted a detailed review of clinical governance and risk management arrangements in October 2009. The recommendations from this review have been included in the clinical governance and risk management development unit's work plan for 2010-11.

Performance Management

Performance management continues to be embedded in the organisation through regular monitoring of targets through the corporate balanced scorecard. Ensuring compliance with the European Working Time Directive continues to be challenging for some staff groups. The Board had a small number of Agenda for Change reviews outstanding at the year end which have since been cleared. The Board has accrued for its estimated future exposure in relation to Agenda for Change, including in relation to staff transferred to the Board as part of the development of heart and lung services. Sickness absence performance continues to be actively monitored, with 'back to work' interviews for all instances of staff sickness. The sickness absence target of 4% was achieved despite higher levels of sickness absence during the 'flu pandemic'.

Challenge and improvement

Management completed Audit Scotland’s Best Value toolkit which evaluated the environment of challenge and improvement in the Board. An internal assessment was carried out over arrangements relating to challenge and improvement within the Board.

We evaluated management’s responses and wider evidence and concluded that the Board demonstrates ‘better practice’ or ‘advanced practice’ in all areas assessed. Management is carefully considering these findings and working towards embedding advanced practices in all areas. The toolkit considered factors including: the culture of challenge and improvement, effective processes to ensure challenge and improvement, effectiveness of challenge and options appraisal and how well the impact from challenge and improvement is demonstrated.

Examples of advanced practices included: the use of the board development tool and subsequent development of an action plan; the embedding of corporate objectives into executive and department level objectives ; the use of independent third parties in relevant reviews and the Board’s use of options appraisal

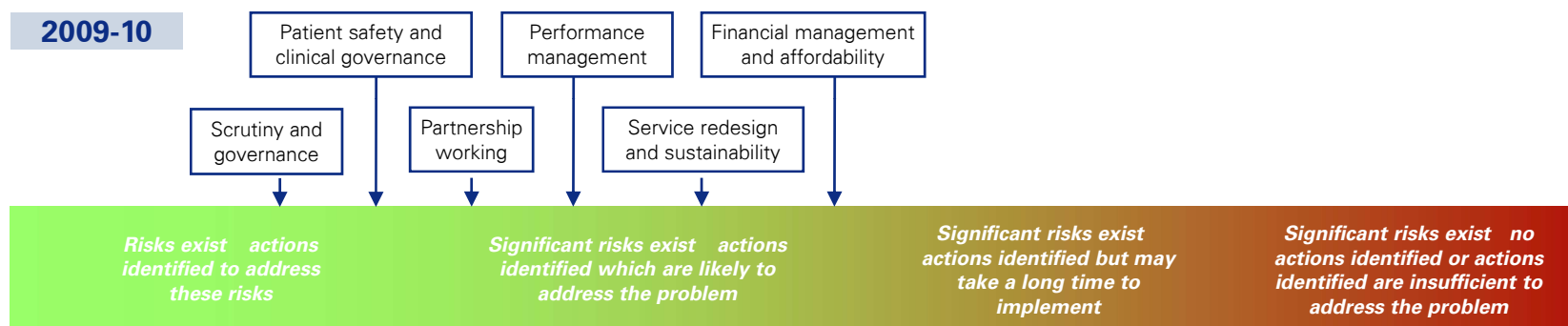
We noted a number of areas where the Board is showing indications of moving towards advanced practice. Identified opportunities for improvement were mainly in relation to formalising procedures and processes at the Board to ensure management can demonstrate consistent challenge and improvement.

Management is considering these findings and working towards embedding advanced practices, where appropriate given the specific nature of the Board’s services, in all areas.

National studies

Audit Scotland prepared a number of studies which aim to assess and share best practice while acting as a trigger for development. The Board was involved in the review of orthopaedic services which showed how other hospitals could reduce length of stay and cost of orthopaedic procedures. As a result of these studies, management has produced action plans for implementing the recommendations of all relevant reports. This should ensure that the Board benefits from the work undertaken and findings from investigations at other public sector bodies.

The Board continues to perform well under the various priorities and risk framework headings and consistently with the previous year, as demonstrated below:



Following board approval we issued an audit report expressing unqualified opinions on the financial statements for the year ended 31 March 2010 and on the regularity of transactions reflected in those financial statements.

Reporting arrangements and timetable

The draft financial statements, excluding narrative statements, were available for audit on 28 April 2010, earlier than previous years. Further discussion and enquiries with external experts were required to support key management judgements over the valuation of property, plant and equipment.

Key issues arising during our audit of the financial statements

Our audit plan overview and interim management report narrated potential key risk areas and we identified additional risk areas during our audit of the financial statements. We have concluded our work in each area and summarise the results below.

Valuation of non-current assets

The Board carried out a number of capital projects during the year. The majority of these projects related to upgrading existing facilities as opposed to creating major new assets. Based on prior experience, the valuation of capital works of this nature does not always equate to the costs incurred. IAS 36 *Impairment of assets* requires organisations to test assets for impairment where there are indicators that assets have been impaired. Management engaged a valuer to assess the level of 'value added' gained from the amounts incurred on major capital works as well as other small projects. This valuation was used as the basis for recognising an impairment in the year.

We consulted with the valuer to understand the scope of the assessment of the 'value added element' of small scale projects, as well as the reasons for particular movements in asset valuations. Based on these discussions we are satisfied of the underlying reasons for the accounting adjustments processed by management.

Pay accruals

The financial statements included £1.8 million of pay related accruals for various purposes, some of which have been carried for a number of years. We have been involved in a number of discussions with finance and human resources staff to review the measurement and the evidence to support the recognition of these liabilities. We have concluded that management's approach to measurement of the accruals is reasonable, but we would encourage resolution of the underlying issues.

Regularity of transactions

Management has processes to receive Scottish Government Health Directorate circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points. We noted in our interim report to management that there was no similar formal process in place for chief medical officer (CMO) and pay and conditions of services (PCS) circulars. Management accepted our recommendation that a central register and process would enhance the control.

Service organisations

NHS National Services Scotland ('NSS') operates a number of systems and initiatives on behalf of NHS organisations 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 national systems. Service audits were conducted in accordance with Statement on Auditing Standards 70 ("SAS 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 national logistics programme, national information and management technology systems.

The Board met its three financial targets – revenue resource limit, capital resource limit, and cash requirement.

The 2010-11 financial plan forecasts a cumulative outturn break even position against the revenue resource limit. Achievement of the plan will be challenging due to increased efficiency savings targets (£2.4 million) and continued staff costs pressures.

Financial position

Performance against the three financial targets for 2009-10 was as follows:

£'000	Final Allocation	Outturn	Variance
Revenue resource limit	61,430	59,674	1,756
Capital resource limit	7,696	7,365	331
Cash requirement	51,473	51,442	31

The surplus against the revenue resource limit relates to the ongoing establishment of the heart and lung centre. As part of the original business case for the centre, additional funding was provided in 2007-08 which is being utilised to meet the financial gap of providing the service. The business plan anticipated a carry forward of £1.7 million at 31 March 2010 and this will be utilised in 2010-11 and the remaining funding gap of £0.6 million will be met from the west of Scotland NHS boards.

The capital outturn is an underspend of £0.3 million against the allocation for the year. Management has discussed the capital position with the Scottish Government Health Directorate (SGHD) and agreed that this funding will not be required in 2010-11. The final capital allocation also reflects £1.4 million of funding returned to the SGHD during the year. As a result of this action management deferred the purchased of a replacement MRI scanner until 2012-13.

The Board has achieved its target level of recurring efficiency savings and achieved a further £0.5 million of recurring savings. In future years, the Board will have to make additional savings in order to achieve a balanced budget.

The performance in 2009-10 illustrated the key challenges for the Board in future years. Staff costs were overspent during the year as a result of the impact of incremental drift, the review of discretionary points and particular pay pressures with cardiac staff. Management took steps during the year to impose strict controls over the use of agency staff which will continue during 2010-11 as well as putting more robust workforce review processes in place.

There is a continued risk surrounding the pay costs for future years which management needs to continue to control tightly.

Financial management (continued)

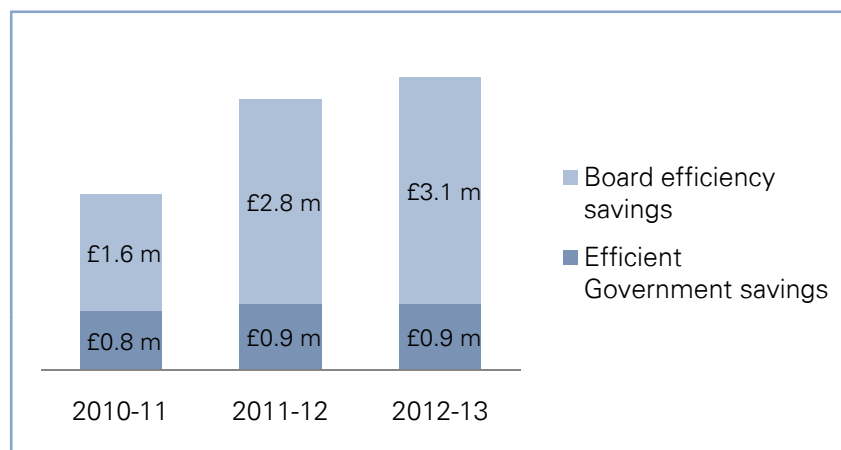
Financial planning

Management has prepared a financial plan for the financial years to 2011-12 in conjunction with the Board's local delivery plan and workforce plan. This plan reviews the current financial position and details the key finance issues for future years, including the impact of pay pressure and efficiency savings.

The 2010-11 financial plan forecasts a break even outturn against the revenue resource limit of £56 million. The 2010-11 budget has been prepared based on the estimated 2009-10 outturn adjusted for: efficiency savings, activity projections, estimated pay award and price increases.

The financial plan assumed the current level of service. The levels of waiting times procedures has been agreed post year-end and the differences analysed. The agreed activity level for 2010-11 shows a large decrease in the number of procedures, but there is an increase in the number of orthopaedic procedures which are of a higher value. This has been estimated to result in no significant change to the income for 2010-11 compared with the prior year and the financial plan. There is a risk that due to financial pressures, territorial boards reduce the number of waiting lists patients allocations.

The heart and lung centre has an estimated £2.3 million gap in the agreed level of funding for the service compared with the cost of providing the service. In 2010-11 and 2011-12 bridging funding will be received from the west of Scotland NHS boards in accordance with the original business plan. No further funding is likely to be available for this service, so control of the costs is crucial to achieving the financial plan. After this period, negotiations will be required to be carried out over how to meet the funding gap. This presents a significant risk to the Board if sufficient arrangements cannot be agreed which do not have an impact on services.



The financial plan analyses the required efficiency savings which need to be achieved for the efficient government target and the further efficiencies necessary to achieve a break-even outturn for the year. The table shows the level of efficiency savings required to be achieved by the Board over the coming three year period.

Management has acknowledged that achievement of these savings will be challenging and has set-up an efficiency and productivity group to consider how to achieve these savings. This group is chaired by the director of finance and includes other executive directors. Savings plans for 2010-11 have been developed which includes timescales for implementation and responsibility for meeting savings has been designated to project leads.

Financial management (continued)

Achievement of efficiency savings will be carried out as part of the monthly financial monitoring of each directorate which will be supported by the efficiency and productivity group. Management have noted that they intend to pay close attention to the financial performance during the year and will exert greater control over any directorates which fail to meet their efficiency targets.

The Board is in the process of creating a new long term clinical strategy for the organisation. This strategy is still in the advanced development stage and as such the financial plan does not account for the revenue impact of any change in services. The financial impact of changing services will be considered separately as part of the clinical strategy and will be reflected in future workforce plans. The capital plan for the next five years includes capital funding of £5 million for the implementation of the clinical strategy.

Key risks identified

- Delivery of the Boards efficiencies
- Heart and lung running costs being higher than anticipated
- Increased staff costs as a result of Agenda for Change
- Medical workforce planning issues

Key risks

Achievement of the financial plan will be challenging due to the need to reduce the carry forward of budgets at the year end. The table summarises the key risks identified by management.

Corporate governance arrangements

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.

The Board has completed its investigations from the NFI exercise and identified one instance of staff related fraud.

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

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 integrated governance framework includes three governance sub-committees of the board: audit, staff governance, and clinical. The terms of reference for each committee detail decision-making powers and delegated responsibility. The integrated structure is based on regular and open communication, which is enhanced by quarterly meetings of the committee chairs.

Internal audit

Internal audit completed their plan for the year. We relied on a number of reports, including funding in relation to clinical governance, financial systems assurance and staff and patients communication. The Board received internal audit's annual report in June 2009, which 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 areas of 'higher risk' highlighted by internal audit are in relation payroll and expenses processing for Beardmore Hotel employees. These issues have not affected the overall assurance provided by internal audit.

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 weaknesses noted, controls are designed appropriately and operating effectively.

Prevention and detection of fraud and irregularity

We evaluated the procedures and controls related to fraud to be designed and implemented effectively. The Board has undertaken activities to raise the awareness of fraud during the year, by making a fraud training module, provided by NHS Counter Fraud Services, available to all staff. Information and training on fraud is also provided to new staff as part of the corporate induction process. We recommend that further steps are taken to raise the awareness of fraud throughout the organisation, including displaying the details of the fraud officer and whistle blowing hotline prominently on the staff intranet as well as information posters in staff areas.

Recommendation one

National Fraud Initiative (“NFI”)

Health bodies continued to participate in NFI during the year. From the 2009 data, the Board had 193 matches (*2007 NFI, 97 matches*) and investigated 157 of these. 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.

One instance of fraud carried out by a member of staff was identified. This case was reported to Counter Fraud Services who choose not to proceed with a criminal prosecution. Management carried out an internal investigation and appropriate disciplinary procedures.

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. As self-assessment is completed for all reports relevant to the Board. The reports are then assigned responsibility and are forwarded to the appropriate person or committee where an action plan in response to the Board is carried out and progress against the plan is monitored.

In 2009-10 we have reported action taken by management in response to a number of reports as summarised below:

- Managing the use of medicines in hospitals;
- Overview of mental health services;
- Improving public sector purchasing; and
- Improving civil contingencies planning.

We noted that each of these had been either noted or discussed by a committee of the Board as deemed relevant. We will report on management's response to the following reports in July 2010:

- Scotland's public finances: preparing for the future;
- Overview of NHS in Scotland's performance in 2008-09;
- Protecting and improving Scotland's environment;
- Improving public sector efficiency;
- Managing NHS waiting times; and
- Review of orthopaedic services.

We note that the majority of these have been either noted or discussed by the Board, other than Protecting and improving Scotland's environment which is due to be discussed in the future.

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	We recommend that further steps are taken to raise the awareness of fraud throughout the organisation, including displaying the details of the fraud officer and whistle blowing hotline prominently on the staff intranet as well as information posters in staff areas.	<p>Board considers they are very proactive with regard to fraud communication and this is supported by Counter Fraud Services. In response to the recommendation the Board will undertake the following actions :</p> <ul style="list-style-type: none"> • Include the counter fraud services logo on the intranet • Review current communication and improve if appropriate 	<p>Fraud Liaison Officer supported by Counter Fraud Champion</p> <p>Ongoing</p>