



INFRASTRUCTURE, GOVERNMENT &
HEALTHCARE

Dumfries and Galloway NHS Board

Annual audit report to Dumfries
and Galloway NHS Board and
the Auditor General for Scotland
2007-08

20 June 2008

AUDIT

Contents

Executive summary	1
Introduction	3
Financial statements audit	5
Corporate governance	7
Performance management	17
Appendix – action plan	23

Notice: About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the Code'). This report is for the benefit of only Dumfries and Galloway NHS 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

This report summarises our work for 2007-08 and our findings in relation to our audit of the financial statements, corporate governance and performance management arrangements.

Financial statements

Following approval on 20 June 2008 we issued an audit report expressing an unqualified opinion on the financial statements of the Board for the year ended 31 March 2008 and on the regularity of transactions reflected in those financial statements.

Management reviewed pay modernisation accruals following preparation of the draft financial statements, resulting in an increase of £0.3 million to the accrual made in respect of outstanding review requests. The *Agenda for Change* review process is at an early stage locally and nationally, so there is considerable uncertainty around the average success rate and therefore the impact on the financial position.

Corporate governance

We considered corporate governance arrangements as they relate to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct and arrangements for the prevention and detection of corruption, and its financial position.

The statement on internal control does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding. Internal audit concluded that there are *"systems in place to identify major risks, adopts appropriate policies and procedures for their management and has generally a sound system of controls which are for the most part consistently applied. These provide significant but not absolute assurance that system objectives are being achieved."*

There is a formal process to record, distribute and monitor action in response to key guidance and circulars.

The Board participated in NFI for the first time in 2007, with all data matches resolved during 2007-08. We monitored the involvement in NFI during the course of the audit and concluded that adequate arrangements are in place for managing obligations with respect to NFI.

The Board met all three financial targets for 2007-08.

The 2008-09 financial plan assumes utilisation of £3.5 million of carried forward monies. This will support non-recurring initiatives, including completion of refurbishment of the radiology department and education centre. There are significant sustainability challenges in 2008-09 in meeting waiting time guarantees and managing increasing overspends in acute healthcare budgets. Achievement of the target 2008-09 financial position will require tight budgetary control and staff engagement at all levels of the organisation. The underlying assumptions on which achievement of the target is predicated will present significant challenges for management.

The efficiency target for 2008-09 is 2% or £4.6 million. The process of identifying suitable projects to meet this target is still underway and increases the risk that the target may not be achieved.

Performance management

Meeting waiting times guarantees for orthopaedic services continues to pose a significant challenge. Continuing reliance on private sector capacity is not sustainable and management are developing initiatives to increase internal capacity and productivity.

Sickness absence levels provide workforce and financial challenges. Overspends in acute nursing are concentrated on a number of wards with particularly high levels of sickness absence. Extensive work is underway to manage long-term absences and to identify ways to return staff to work at the earliest opportunity on full or light duties.

Establishment of a community health and social care partnership board with Dumfries and Galloway Council aims to embrace a wider community planning and social care agenda. This will provide a vehicle for discharging accountability over resource transfer arrangements with the Council.

Best Value principles are embedded on a Board-wide basis and ownership rests at an operational level outside the finance department. This approach represents good practice in securing Best Value.

The Board achieved £2.2 million of recurring efficiency savings, in line with the target agreed in the local delivery plan. Additional non-recurring savings of £0.3 million were realised through staffing reconfiguration within mental health services.

The Board developed an information security action plan during the year and the healthcare governance committee monitors progress. Our review of information management identified weaknesses in oversight and testing of business continuity and disaster recovery arrangements.

Controls over pre-employment checks for overseas staff are designed and implemented appropriately.

Introduction

Audit framework

This year was the second of our five-year appointment by the Auditor General for Scotland as external auditors of Dumfries and Galloway NHS Board (“the Board”). This report to the Board and Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland’s *Code of Audit Practice* (“the Code”) the scope of the audit was to:

- provide an opinion on the Board’s financial statements and the regularity of your transactions;
- review and report on:
 - your corporate governance arrangements as they relate to: your review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and your financial position
 - the Board’s arrangements to achieve Best Value
 - other aspects of your arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan discussed with the Board’s audit committee.

Service overview

The future of Dumfries and Galloway Royal Infirmary (“DGRI”) has been the subject of extensive review during the year. The existing building is in need of significant investment and the Scottish Government Health Directorate has encouraged maximising single-room provision within a redeveloped hospital. The Health Directorate’s capital investment group approved the project and invited the Board to proceed to outline business case, which is scheduled for submission in the summer of 2009. The total cost of the redevelopment is forecast at £120 million.

Management has progressed preparation of a comprehensive business case for redesign of acute and community mental health services. The proposals include a new 85-bed acute mental health facility, including an intensive psychiatric care unit, to replace the existing wards at the Crichton Royal Hospital. The redesign has been subject to a formal public consultation exercise and a full business case will be prepared during 2008-09. The capital cost of the project is estimated at £27.2 million, with additional recurring revenue costs of £1.8 million per year.

The Dumfries Dental Centre opened within the grounds of DGRI in January 2008 and became fully operational in April. The 18 chair centre has capacity to provide 37,600 patient contacts each year and will provide training facilities for dental students and dental therapists.

Ophthalmology services have been subject to significant redesign during the year in order to increase in-house capacity to meet waiting time guarantees. This redesign, to be completed in 2008-09, included the appointment of two additional consultants, development of accommodation, procurement of equipment and introduction of designated cataract operating sessions at Galloway Community Hospital. Management forecast cost savings of up to 25% through decreased use of the Golden Jubilee National Hospital and the private sector.



The Board progressed a number of other service redesign and enhancement projects during the year. These include a £3.4 million operating theatre redevelopment in DGRI scheduled for completion in June 2008, enabling works to accommodate an MRI scanner to allow local diagnosis of over 1,850 patients annually, the first phase of a £2.9 million project to refurbish the x-ray department at DGRI and installation of a biomass boiler to improve energy efficiency.

We considered the processes and arrangements in these areas in focusing our audit effort.

Priorities and risks

KPMG's audit methodology is risk based. To assist in the identification of risks and ensure development of a consistent approach to the audit across bodies, Audit Scotland published a *Priorities and Risks Framework* setting out seven areas for consideration:

- service redesign and sustainability;
- partnership working;
- governance;
- financial management;
- performance management;
- people management; and
- information management.

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 accountable officers, to make arrangements to secure Best Value.

We have structured the report around the headings financial statements audit, governance arrangements and performance management arrangements.

Acknowledgement

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

Financial statements audit

- We have issued unqualified opinions on the financial statements.
- Management reviewed pay modernisation accruals following preparation of the draft financial statements, resulting in an increase of £0.3 million to the accrual made in respect of outstanding review requests. The *Agenda for Change* review process is at an early stage locally and nationally, so there is considerable uncertainty around the average success rate and therefore the impact on the financial position.
- A number of minor adjustments were processed in addition to the above, but these had only limited impact upon the outturn against the revenue resource limit.

Reporting arrangements and timetable

In accordance with the Board's timetable, draft financial statements were available for audit on 19 May 2008. This allowed for timely completion of the audit and consideration and approval of the financial statements by the board on 20 June 2008.

Audit opinion

Following approval on 20 June 2008 we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2008 and on the regularity of transactions reflected in those financial statements.

Pay modernisation

The balance sheet at 31 March 2008 includes accruals of £1.5 million in respect of residual liabilities due to employees associated with the implementation of *Agenda for Change*, including an accrual for potential liabilities arising from review requests. Management reviewed the basis of the accrual for review requests following preparation of the draft financial statements in light of emerging local and national information on review outcomes. This resulted in an increase to the accrual of £0.3 million. The review process is at an early stage within Dumfries and Galloway and across Scotland, so there is considerable uncertainty around the average success rate and therefore the impact on the financial position. The Board has assimilated the majority of staff under *Agenda for Change* and so the population of reviews is now known. Around 1,100 review requests have been received which affect 2,400 post holders.

Impairment

In accordance with normal accounting practice, external surveyors valued the Dumfries Dental Centre on completion. The valuation of the land and buildings on a depreciated replacement cost basis was £289,000 lower than capital expenditure incurred, giving rise to an impairment charge. The impairment was eligible for additional funding from the Scottish Government and so is not charged against the year's revenue resource limit. Management did not identify any inefficiencies in the construction process and is therefore carrying out an informal review to determine if there are any lessons that can be applied to future projects.

Scottish biomass support scheme

The Scottish Government supported installation of a biomass heating scheme for two NHS buildings and associated residencies at Crichton Royal Hospital by biomass support scheme grant of £310,000. The total cost of the system was £1,024,000. Following late discussions with the Scottish Government Health Directorate the grant – which had been offset against the fixed asset additions in year – was accounted for through other creditors.

MRI scanner

Assets under construction at 31 March 2008 include a £685,000 accrual in respect of a magnet purchased for use in an MRI scanner. Due to problems with availability of accommodation, delivery of the magnet did not take place until 1 May 2008. As the asset was not available for use at the year end, management should not have recognised an asset. This is an unadjusted audit difference, but there is no impact upon the net asset position at 31 March 2008.

Equal pay

Article 141 of the Treaty of Rome requires member states to ensure and maintain “the application of the principle that men and women should receive equal pay for equal work”. This was expanded on in the Equal Pay Directive, which made it clear that all such discrimination should be eliminated from all aspects of remuneration. The NHS in Scotland has received a number of claims for backdated pay increases, arising from this requirement.

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

As at 31 March 2008, NHS bodies in Scotland had received some 12,000 claims and referred them to the Central Legal Office. It is possible that these claims represent a current liability for NHS boards generally. At 31 May 2008 there were 247 grievances or employment tribunal claims registered directly against the Board. The CLO has co-ordinated the response to all claims and attended discussions which have taken place so far. The CLO affirms that the cases in Scotland are at too early a stage to allow any assessment of financial risk to be included in the financial statements.

We note the CLO’s current view of the stage the cases have reached and management should continue to work with the Scottish Government Health Directorate and other NHS boards to form a view of the potential liabilities in line with accounting standards, taking into account the progress of cases in Scotland and in England.

Recommendation one

Corporate governance

- The statement on internal control does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding. Internal audit concluded that there are *“systems in place to identify major risks, adopts appropriate policies and procedures for their management and has generally a sound system of controls which are for the most part consistently applied. These provide significant but not absolute assurance that system objectives are being achieved”*.
- There is a formal process to record, distribute and monitor action in response to key guidance and circulars.
- The Board participated in NFI for the first time in 2007, with all data matches resolved during 2007-08. We monitored the involvement in NFI during the course of the audit and concluded that adequate arrangements are in place for managing obligations with respect to NFI.
- The Board met all three financial targets for 2007-08.
- The 2008-09 financial plan assumes utilisation of £3.5 million of carried forward monies. This will support non-recurring initiatives, including completion of refurbishment of the radiology department and education centre.
- There are significant sustainability challenges in 2008-09 in meeting waiting time guarantees and managing increasing overspends in acute healthcare budgets. Achievement of the target 2008-09 financial position will require tight budgetary control and staff engagement at all levels of the organisation. The underlying assumptions on which achievement of the target is predicated will present significant challenges for management.
- The efficiency target for 2008-09 has been set at 2% or £4.6 million. The process of identifying suitable projects to meet this target is still underway and increases the risk that the target is not achieved.

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:

- reviews of systems of internal control, including reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- financial position.

Corporate governance framework

Where the board has delegated responsibility or decision-making power to a sub-committee, this is included in the terms of reference for the relevant sub-committee. There are eight sub-committees: audit, community health and social care partnership, consultant appointments, finance, healthcare governance, pharmacy practices, staff governance, and the area clinical forum. Committee terms of reference are appended to the standing orders and include the committee's objectives, membership profile, remit, meeting frequency and reporting arrangements. The staff governance committee has established a remuneration sub-committee to determine issues relating to the remuneration of the chief executive, executive directors and other senior managers as well as overseeing other areas where there is local discretion in determining remuneration.

The Board established a public patient involvement committee during the year. Its remit includes oversight of the implementation of the healthcare aspects of the patient public involvement strategy. Membership of the committee represents a variety of interests, including equality and diversity, patient feedback, patient information and community involvement workers. The committee held a patient focus public involvement event in May 2008 at which members of the public, patients and staff contributed to the self-assessment of activities in this area during 2007-08.

At an operational level, the governance framework is supported by:

- standing orders which regulate the membership and proceedings of the board;
- a scheme of delegation which defines the level of responsibility delegated to committees and employees;
- standing financial instructions that detail the major principles for the planning and control of finance functions; and
- operational financial procedures that provide detailed guidance on the operation of key processes, including financial controls, computer systems and operational workflows.

The board consists of seven executive directors, including the chief executive, and eleven non-executive directors, including the chair. The combined experience of the non-executive directors is appropriate, and one of the non-executive members of the audit committee has an accountancy qualification.

The Ethical Standards in Public Life etc. (Scotland) Act 2000 requires NHS organisations to implement a code of conduct for board members, outlining their responsibilities. In line with the model code, the code contains rules of conduct on:

- general conduct;
- registrations of interests;
- declaration of interests; and
- lobbying and access to members of public bodies.

The Board published *respect: a code of positive behaviour for staff* in January 2008. This sets out the expectations and responsibilities of all employees, describing how the Board and its staff will work together to strengthen the culture and working environment in order to deliver excellent care to patients and the public. The area partnership forum and area clinical forum developed the standards, with input from focus groups comprising members of staff from across the organisation.

We considered the corporate governance arrangements, which, combined with the work of internal audit, has concluded that the corporate governance framework has been designed and implemented appropriately.

Statement on internal control (“SIC”)

The SIC for 2007-08 provides details of the processes and controls and management highlights that the organisation is committed to a process of continuous development and improvement and to developing systems in response to any relevant reviews and developments in best practice. The director of finance compiles the SIC. It is informed by the working knowledge of executive managers who have responsibility for the development and maintenance of the internal control framework, the work of internal auditors, including reports to the audit committee, and comments made by the external auditors in reports to the audit committee. Periodic reports from the audit, healthcare governance and staff governance committees, monitoring of key performance and risk indicators and the maintenance of an organisation-wide risk register provide further support for the review.

Risk management

The risk management strategy aims to embed risk management in clinical and governance practices so that the level of risk is considered in the course of operational and strategic decision-making. As well as outlining the risk management process and structure, the policy provides guiding principles for managing risk.

The healthcare governance committee approved an updated corporate risk register in January 2008. Corporate risks are categorised as relating to financial, staff, information, healthcare, corporate, and research and development governance. Risks are scored in terms of their likelihood and potential impact. A lead officer is allocated to manage each risk and relevant controls identified to mitigate the risk. Each department is responsible for maintaining its own risk register and management team meetings include a review of the registers. Departmental managers are responsible for providing quarterly risk management updates to the corporate management team and to the healthcare governance committee. Management presented an updated risk register for the finance department to the audit committee in September 2007.

Internal audit completed a three-year cycle of risk management reviews in 2007-08, concluding that *“the organisation’s risk maturity has grown to the stage where risk is managed throughout the organisation. This is endorsed by an approach which has been managed, communicated and implemented.”*

Clinical governance

The healthcare governance committee approved a healthcare governance framework for 2007-12 in September 2007, defining healthcare governance as *“about assuring the quality of care, treatment and service which is delivered through operational teams”*. The framework aims to secure *“high quality, appropriate and reliable patient care”*. Since 2003, the healthcare governance framework has focussed on developing and embedding clinical governance through 16 quality indicators across four categories: patients/public, workforce, clinical effectiveness and organisation. The new framework seeks to implement continuous quality improvement in healthcare by introducing a more coordinated and connected approach to clinical governance, through the general management structure with clinical and support teams. The model is designed to achieve *“steady and progressive change in the quality and appropriateness of healthcare delivery supporting an evolving service fit for the future”*.

In partnership with NHS Ayrshire and Arran, in November 2006 the Health Foundation selected the Board to join the second phase of the *Safer Patient Initiative*. The initiative, funded by the Health Foundation and delivered by the Institute for Health Improvement, brings together 20 hospitals from across the United Kingdom to work towards becoming the safest hospitals in the country and developing a national network of patient safety training sites. Achievements during the year include establishing four pilot teams to test improvements in critical care, a general ward, surgery and medicines management and the completion of around 50 'walkarounds' by executive directors which provide frontline staff with an opportunity to discuss with them any concerns regarding patient safety. A joint board meeting with NHS Ayrshire and Arran in March 2008 developed a deeper understanding of the programme and considered the leadership role in positioning patient safety as a key strategic priority. The boards agreed a joint action plan to progress issues raised and further joint meetings are planned.

NHS Quality Improvement Scotland ("NHS QIS") published the national standards for clinical governance and risk management: achieving safe, effective, patient-focused care and services in October 2005. These standards are used to assess the quality of services provided by NHS Scotland nationwide. NHS QIS published the results of the peer review of the Board in January 2007, which concluded that "*within NHS Dumfries and Galloway there is a clear commitment to implementing risk management and to ensure policies, strategies, systems and processes are fully embedded throughout the organisation. A proactive approach to awareness raising and embedment of risk management was noted by the review team. This was evident through the delivery of risk management training to all staff which has resulted in a 'bottom up' approach.*" The report also noted that "*in the absence of a Board-wide business continuity plan... emergency and continuity planning systems are in developmental stages within this core area*".

Each service area maintains its own business continuity plan and a series of business continuity workshops were held in 2007 to assist heads of service and managers in developing detailed plans. A corporate framework for business continuity plans and a series of templates were circulated to provide assistance. A number of specific emergency planning procedures also exist and a series of desktop and live exercises is performed on a selection of plans on an annual basis. In 2007, this included a full live exercise with the patient recording system during a major accident or incident and a full desktop exercise during a flu pandemic. However, there remains a lack of Board-wide oversight of the adequacy, timely review and sufficiency of testing of business continuity plans within key service areas. Management accepted our recommendation on this important area and aim to introduce a more formal approach by August 2008.

The chief executive set an objective for achievement of "level four" maximum assessment against all NHS QIS standards. The medical director is leading a programme to self-assess the current level of achievement and to monitor the progress required under each standard to achieve the maximum assessment. Progress is regularly reported to the healthcare governance committee.

A clinical strategy is emerging from the programme of local health partnership service reviews and model of care steering groups, shaped by the broader national and local strategic policy context. An initial draft of the strategy was presented to the board in June 2008. The process, coordinated by a clinical strategy programme board, aims to "*ensure that the opportunities of a unified health system are fully utilised to support progress towards developing a health service fit to respond to the changing drivers for delivering health care*". The strategy development process seeks to involve and engage a variety of stakeholders and to apply a "bottom up" approach to empower frontline service users and providers to direct future models of care. The draft strategy explores a number of options to achieve clinical strategy objectives.

Internal audit

We have liaised with internal audit during the year to discuss the findings and timing of work in areas in which reliance was planned. Internal audit delivered its annual plan in full. We placed reliance on internal audit's work in the following areas, reviewing the supporting files:

- budgetary control;
- debtors;
- ledger controls and reconciliations;
- payroll;
- cash and banking;
- treasury management; and
- risk management.

The chief internal auditor concluded that *"NHS Dumfries and Galloway has systems in place to identify major risks, adopts appropriate policies and procedures for their management and has generally a sound system of controls which are for the most part consistently applied. These provide significant but not absolute assurance that system objectives are being achieved."* This is the same level of assurance as the previous year.

Of 47 internal audit reviews completed in 2007-08, only three (6%) provided limited assurance over systems and controls. This contrasts with the position in 2006-07 when 19% of completed assignments provided limited assurance. The chief internal auditor confirms the view expressed in the 2006-07 report that the higher proportion of "limited assurance" audits in that year *"resulted from a cluster of periodic audits in weaker areas rather than a fundamental change in quality"*. However, the proportion of reviews providing comprehensive assurance (the maximum rating) fell from 11% in 2006-07 to 6% in 2007-08. Reviews providing limited assurance in 2007-08 included management of cardiology patient records, Newton Stewart Hospital and primary care GMS dental. In all cases, actions to improve the level of assurance over controls have been agreed between internal audit and management. Internal audit will monitor implementation of these actions during 2008-09.

The chief internal auditor retired in May 2008. Management considered a range of options for the future delivery of the service during the last quarter of 2007-08. Following a detailed evaluation exercise that considered how operational requirements could best be delivered within a defined cost envelope, the Board appointed a new chief internal auditor with effect from July 2008.

Internal controls

Drawing on the work of internal audit, we carried out detailed testing in relation to both organisation-wide and key financial controls. We concluded that, with the exception of controls over pharmacy stock, controls were designed appropriately and operating effectively. We identified a number of minor areas for enhancement of controls over pharmacy stock. Management accepted these recommendations.

Prevention and detection of fraud and irregularity

Fraud policy

The fraud policy and response plan were last updated in 2004 and we recommended to management that these were subject to formal review. Both documents contain guidance on key areas, including fraud indicators and investigation procedures. There are no significant weaknesses, but good practice would suggest that management review all policies on a cyclical basis to ensure that they meet current guidelines and remain relevant for the organisation. Management agreed that this would be progressed following finalisation of the *Strategy to combat NHS fraud in Scotland* issued by the Scottish Government Health Directorate in January 2008.

During the year management developed a fraud risk register in response to previous external audit recommendations. This register attempts to identify and assess the main areas where there is a fraud risk exposure, with each identified risk scored in terms of its severity and likelihood. Management did not identify any "high" or "very high" fraud risks. Compilation of the fraud risk register documented the range of controls to deter and identify erroneous and fraudulent transactions.

National Fraud Initiative ("NFI")

In 2007-08 the Board participated in the NFI in Scotland. The Scottish Government Health Directorate and NHS Counter Fraud Services have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005), but if fraud or overpayments are not identified, assurances may be taken about internal arrangements for preventing and detecting fraud. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application.

The overpayments and savings identified by participating bodies in Scotland during the 2006-07 exercise is currently £9.7 million. This is likely to increase in the months ahead as bodies complete their follow up work. While NHS boards did not identify a significant part of these savings, as they are principally responsible for payroll matches, the inclusion of NHS boards was worthwhile. NHS employees were linked with several payroll irregularities, including a significant payroll fraud involving working while on sick leave at another body. NHS employees were also linked with more than 90 cases of housing benefit fraud or overpayment.

The Scottish Government Health Directorate issued guidance to all NHS boards in April 2008 to outline the requirements for data preparation and submission for inclusion in the 2008-09 NFI exercise which commences on 6 October 2008.

We monitored the Board's involvement in NFI during the course of the 2006-07 audit, and updated our understanding of the status of investigations into data matches in January 2008. Our responsibilities in relation to the NFI exercise include completing a questionnaire evaluating the response to NFI and sample testing of cleared matches, which was submitted to Audit Scotland in February 2008.

The chief internal auditor was the key NFI contact and was responsible for facilitating the review and reporting of work being performed. He worked closely with the head of human resources and the payroll team leader to review matches, with a focus on matches to be reviewed internally. Progress was formally reported to the audit committee on a quarterly basis; none of these reports identified any significant issues requiring specific attention.

During 2007-08 all data matches within Board control were resolved. We performed sample testing of the documentation available to support work performed for a sample of data matches and did not identify any errors or weaknesses.

We consider that there are adequate practical arrangements in place for managing obligations with respect to NFI, but noted in our interim management report (March 2008) that the process could be enhanced by documentation of procedures and a formal timetable. This is particularly important following the retirement of the chief internal auditor. Management is now developing written procedures for the 2008-09 exercise.

Patient exemption checking

NHS Counter Fraud Services published the results of the 2007 patient exemption checking process in April 2008. The patient fraud protocol requires provision of an annual estimated level of fraud and error to each NHS board for the 12 months to December. The figures are based upon the results of routine checking undertaken by the patient claims team, which aims to reduce fraud by targeting higher risk areas. These results are extrapolated to produce a statistically robust estimate of total fraud within each board area and on a national basis.

Total estimated fraud within NHS Dumfries and Galloway in 2007 is £204,000 (2006: £207,000). This represents income lost through patients fraudulently or mistakenly claiming exemptions against dental, pharmaceutical and ophthalmic treatment charges. The percentage rate of estimated fraud is within the national average. Management believe that the potential fraud/error is not significant and has not adjusted the financial statements. We have recorded the loss of income as an unadjusted audit difference.

Regularity

In accordance with our responsibilities within the *Code*, we provide an opinion on the Board's financial statements and, as required by relevant authorities, the regularity of transactions. In order to gain assurance over the regularity of expenditure we have updated our understanding over the processes in place to receive SGHD circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points.

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

Family health services

NHS National Services Scotland ("NHS NSS") processes family health services ("FHS") income and payments on the Board's behalf. As a result, there is no direct control over issues of systems of control and the regularity of transactions. Transactions are completed on the basis of self-certification by FHS contractors. The Board thus needs to establish appropriate governance structures and processes to verify payments made on its behalf.

Payment verification

Management continued to meet quarterly with staff from the practitioner services division (“PSD”) of NHS NSS to discuss the findings of payment verification visits to family health contractors undertaken by PSD. The Board agrees follow up actions with PSD, the majority of which are the responsibility of PSD with a small number of actions to be implemented locally, usually in relation to dental practices. Discussions at meetings and agreed actions are formally minuted. Management provide regular updates on the results of payment verification processes to the audit committee. The payment verification process did not identify any instances of significant fraud or error during the year.

Qualities and outcomes framework (“QOF”)

NHS NSS has refined and extended pre-payment verification procedures over quality payments due to GP practices under the new general medical services contract. In line with national guidance, NHS NSS visited 50% of GP practices during 2007-08 to review the prior year outturn and to provide assurance over the practices’ likely achievement in the year. They randomly selected two practices for verification of quality payments; both practices achieved a high level of assurance.

The health intelligence unit undertakes detailed statistical analysis of QOF achievement data to identify outliers in terms of prevalence data, non-clinical domains and year-on-year outturn. The analysis this year included detailed exception reporting for all indicators for all practices compared to national exception reporting.

Service organisations

NHS 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. For the first time, service audits for 2007-08 were conducted in accordance with Statement on Auditing Standard 70, issued by the American Institute of Certified Public Accountants, in order to provide positive assurance over controls in place 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.

- The practitioner services division of NHS NSS is responsible for calculating and making payments to primary care contractors on behalf of territorial NHS boards. The service auditor issued an unqualified opinion on 30 April 2008. Five new significant control exceptions were reported in 2007-08.
- The national logistics programme provides a centralised service for ordering, storing and distributing supplies on behalf of a number of NHS Scotland organisations. The service auditor issued an unqualified opinion in March 2008, reporting two “high risk” control weaknesses in relation to authorisation of purchase orders and the creation of new suppliers.
- NHS NSS manages a range of national information and management technology systems that underpin delivery of the eHealth strategy and are integral to the operations of NHS bodies. The service auditor issued an unqualified opinion in March 2008. Two “high risk” control weaknesses were identified, relating to awareness of password policies and documentation of ‘known errors’ referred to service teams.
- Audit Scotland performed an additional review of NHS NSS arrangements to manage the national information management and technology infrastructure. This review highlighted a small number of risk areas but concluded that overall management arrangements were adequate.

Financial position

The Board achieved all three of its financial targets for 2007-08.

The local delivery plan forecast that there would be a cumulative surplus of £11 million at 31 March 2008. As 2007-08 progressed, management recognised over and underspends against the plan and reflected the impact of new decisions, including mental health redesign. Management was active in accelerating various schemes when the in-year net expenditure forecast decreased. Following discussions with the Board, the Scottish Government Health Directorate transferred £3 million of revenue allocation to capital in January 2008 to recognise the demand future redesign projects will place on capital resources. The year end outturn of £7 million, compared to the revised forecast of £8 million, arises principally from an acceleration of activity in order to meet waiting times guarantees.

Overspends against acute healthcare budgets which emerged in the final quarter of 2007-08 create ongoing financial pressures. Management has reported that widespread increases in the cost of supplies from qualitative changes in practices and products and consider that it is not possible to reverse these, exerting pressure to uplift budgets in 2008-09. Maintenance of junior and mid-grade doctor rotas is proving challenging, particularly ahead of the effective date for full compliance with the working time directive, and a shortage of locums is pushing the grading profile of rotas upwards, increasing costs. Sickness absence rates continue to increase, despite extensive management initiatives in this area, contributing to nursing overspends.

The Scottish Government Health Directorate has not yet formally confirmed the level of revenue and capital funding that can be carried forward into 2008-09, although the local delivery plan which assumed a carry forward of £8.3 million was approved. Management should liaise with the Scottish Government Health Directorate to obtain formal confirmation of funding being carried forward into 2008-09 to avoid the risk of late changes to financial plans.

Recommendation two

The director of finance designates a budget setting lead within the finance department each year to oversee the production of budgeting principles for the financial year. The budget review process, introduced in 2007-08, includes a programme to zero base budgets over a rolling three-year period. Internal audit identified that management rebased budgets for 2007-08 in 68 overspending areas. Financial plans are produced for each budget area, which form the basis of monitoring throughout the financial year.

Financial plans

The 2008-09 financial plan assumes utilisation of £3.5 million of carried forward monies and reflects the impact of the new national funding allocation formula. The release will support non-recurring initiatives, including completion of refurbishment of the radiology department and education centre.

Management has identified key financial risks relating to spend on meeting waiting time targets and overspends against acute healthcare budgets. Management do not believe that the historical level of non-recurring funding applied to achieve waiting time targets is sustainable; extensive reviews of service delivery are underway to mitigate associated risks. Service managers are maximising internal capacity by pooling waiting lists for orthopaedic consultants from July 2008, introducing universal pre-assessment to identify suitable candidates for day case treatment and creating a '23 hour' treatment stream to enable more complex cases to be treated on a day case basis.



Achievement of the target 2008-09 financial position will require tight budgetary control and staff engagement at all levels of the organisation. The underlying assumptions on which achievement of the financial plan is predicated will present significant challenges for management.

In the longer term, the redevelopment of Dumfries and Galloway Royal Infirmary presents significant financial uncertainty in terms of capital outlay and increases to recurring revenue expenditure. Management understands that specific additional capital funding will be made available; the costs of the project are not reflected in the current financial plans.

The efficiency target for 2008-09 has been set at 2% or £4.6 million; management has reflected £3.5 million in service budgets. The process of identifying projects to meet this target is, however, still underway. Management should consider the timetable for identification of savings projects to ensure that appropriate projects are identified in a timely manner to meet the current shortfall in 2008-09 and to derive maximum in-year recurring benefit from the schemes.

Recommendation three

Performance management

- Meeting waiting times guarantees for orthopaedic services continues to pose a significant challenge. Continuing reliance on private sector capacity is not sustainable and initiatives to increase internal capacity and productivity are being developed.
- Sickness absence levels provide workforce and financial challenges. Overspends in acute nursing are concentrated on a small number of wards with particularly high levels of sickness absence. Extensive work is underway to manage long-term absences and to identify ways to return staff to work at the earliest opportunity on full or light duties.
- Establishment of a community health and social care partnership board with Dumfries and Galloway Council aims to embrace a wider community planning and social care agenda. This will provide a vehicle for discharging accountability over resource transfer arrangements with the Council.
- Best Value principles are embedded on a Board-wide basis and ownership rests at an operational level outside the finance department. This approach represents good practice in securing Best Value.
- The Board achieved £2.2 million of recurring efficiency savings, in line with the target agreed in the local delivery plan. Additional non-recurring savings of £0.3 million were realised through staffing reconfiguration within mental health services.
- An information security action plan was developed during the year and the healthcare governance committee monitors progress against it. Our review of information management identified weaknesses in oversight and testing of business continuity and disaster recovery arrangements.
- Controls over pre-employment checks for overseas staff are designed and implemented appropriately.

Service developments

Meeting waiting times guarantees for orthopaedic services continues to pose a significant challenge. The number of referrals continues to increase and exceed available local capacity, contributing to pressures compounded by the abolition of availability status codes ("ASC") during the year for patients medically or socially unfit for treatment. In 2007-08 there was a one-off challenge to review the treatment plans of 700 patients on ASC codes and deliver appropriate treatment to avoid breaches of targets under the new ways methodology. This required significant resource investment and internal capacity constraints necessitated the use of private sector hospitals to deliver treatment to patients.

The outcome of the models of care and local health partnership review processes, embodied in a new clinical strategy, will shape the planned redevelopment of DGRI. A number of model of care working groups met between November 2007 and March 2008 with a remit to identify best current healthcare practice and alternative models that would improve the quality of care for a number of specific conditions or specialties. Each group included representation from acute services, community services, primary care and social work.

A series of local health partnership service reviews was completed between November 2006 and March 2008. These reviews engaged staff and partner organisations to understand what is working well at a local level, areas in need of development and attempted to harness local innovation and enthusiasm to improve services.

Workforce management

The Board has assimilated all but a handful of employees under *Agenda for Change*. 1,093 requests for grading reviews from individual members of staff, covering 493 separate posts and some 2,500 post holders, have subsequently been received. Management introduced a local review policy, based upon national guidance, in autumn 2007. The formal review process commenced in January 2008 and is scheduled to run to spring 2009.

The area partnership forum considered the annual staff governance submission in April 2008. The 2007-08 action plan was based upon the results of a staff survey. Progress against the 2007-08 action plan was subject to formal review in March 2008 through a series of externally facilitated focus groups and a questionnaire to participating staff. The self-assessment will be subject to peer review in summer 2008 in accordance with SGHD guidance. The area partnership forum endorsed the action plan for 2008-09 ahead of submission to the Scottish Government.

Work continues to implement and embed the knowledge and skills framework ("KSF") ahead of the national deadline of 1 March 2009. At March 2008, 75% of staff had a KSF outline. The staff governance committee monitors implementation of KSF.

Pay modernisation benefits realisation plans are regularly submitted to the Scottish Government Health Directorate. Management has reported that benefits realised to date highlight the value and opportunities afforded by consultant job planning in terms of meeting targets and changing services. New primary care contracts provide a range of opportunities to shift the delivery of healthcare from acute facilities to the primary care setting.

Sickness absence levels provide workforce and financial challenges. Overspends in acute nursing are concentrated on a small number of wards with particularly high levels of sickness absence. Extensive work is underway to manage long-term absences and to identify ways to return staff to work at the earliest opportunity on full or light duties.

Joint working with Dumfries and Galloway Council ("the Council")

Development of joint working arrangements with the Council has resulted in establishment of a community health and social care partnership board to embrace a wider community planning and social care agenda. The remit will include Joint Future, mental health, learning disability, health and homelessness, and substance misuse. The partnership board will provide a vehicle for discharging accountability over resource transfer arrangements with the Council. The partnership board has established a draft role and remit and draft finance protocol. The four existing local health partnerships are to be retained, along with the partnership board.

The community planning joint board agreed to develop a community planning partnership outcome agreement, which will provide an opportunity to integrate HEAT targets from the Board's local delivery plan into performance management at a regional level.

Delayed discharge funding will transfer to local authorities from 2008-09, although NHS boards remain accountable for meeting associated performance targets. This will not be ring-fenced. Although the Council has provided assurances that the level of service provision will initially remain unchanged, there is a risk that the Board remains accountable for meeting delayed discharge targets, but does not have the financial mechanisms to influence outcomes. This is a particular risk in Dumfries and Galloway as the Council has predicted a significant funding gap.

The Board and Council continue to work together at an operational level, including collaborative arrangements for civil protection and resilience planning.

Agreements with NHS bodies

We performed a review of hospital and community healthcare income and expenditure incurred through agreements with NHS bodies in Scotland, England, Northern Ireland and Wales, Scottish local authorities ('resource transfer') and organisations from the voluntary sector. With the exception of the lack of formal regular monitoring arrangements with the Council, controls are designed, implemented and operating effectively.

A new West of Scotland medium security unit for mental health forensic patients opened in July 2007 at Stobhill Hospital, Glasgow and there is an arrangement with NHS Greater Glasgow & Clyde for the provision of care to the Board's patients at the clinic. Although the Board is making significant financial contributions to the centre, it has only used the clinic on a very limited basis with only a single patient during 2007-08. For 2008-09 payments will be partially based on activity numbers, as well as local population, which should reduce the level of expenditure.

We understand that, as the arrangements are already in place, there may be little scope to renegotiate the terms, but management should consider revising the funding agreement to ensure that value for money is obtained for this service.

Recommendation four

Performance management

The director of health services presents quarterly reports to the board on performance against local delivery plan targets. The board reviews one 'field' of the national HEAT targets (healthcare, efficiency, access, treatment) each quarter so that each target was considered over the course of the year. From 2008-09, quarterly reports will focus on those targets where the risk of non-achievement is greatest. It is reported that there is increasing clinical acceptance of performance targets, including the importance of waiting list guarantees; the achievement of targets is built into consultants' job plans.

Information management

The eHealth strategy is reviewed on an annual basis and the achievement of outcomes against the plan is reported regularly. Alignment to the national eHealth and local corporate strategy is maintained through continuous consultation between the information management and technology department and other support and service departments.

The healthcare governance committee developed an action plan to address local weaknesses in response to the national information security policies review 'data handling procedures in government', commissioned by the Scottish Government.

We carried out a review of information management arrangements and confirmed that, with the exception of information security management, processes are in place to mitigate the risks faced in this area. We made three significant (grade one) recommendations relating to internal audit coverage, information security policy and oversight and testing of business continuity and disaster recovery arrangements. Management accepted our recommendations.

Audit Scotland performance studies

Audit Scotland undertakes a programme of studies on financial management, governance and performance on behalf of the Auditor General. This programme covers topics of national importance. During 2007-08 the following reports were published in relation to the NHS:

- primary care out-of-hours services;
- overseas staff in the NHS – pre-employment checks;
- overview of Scotland’s health and NHS performance in 2006-07;
- free nursing and personal care; and
- managing long term conditions.

Studies on NHS asset management, diagnostics, mental health, national general medical services contract and palliative care are in progress. Audit Scotland expects to publish the NHS overview report 2007-08, focusing on financial management, in December 2008.

The chief executive receives reports and distributes them to relevant senior management. Where appropriate, an internal action plan will be prepared, based on Audit Scotland’s summary and national conclusions, to address local weaknesses. The audit committee receives all reports, of which some are subject to detailed discussion and others are noted and subject to full discussion by another governance committee such as clinical or staff governance.

[Overseas staff in the NHS – pre-employment checks](#)

Events in Glasgow and London in 2007 were alleged to involve overseas staff working in the NHS. Following these incidents reviews were instigated which covered the arrangements for recruiting overseas staff for work in the NHS. In Scotland the Cabinet Secretary for Health and Wellbeing also requested a review of whether pre-employment screening of overseas staff working in the NHS in Scotland was in line with guidelines set out by the Centre for Protection of National Infrastructure.

Audit Scotland carried out a review as to whether NHS boards are following their own procedures on pre-employment screening, reporting in November 2007. This review considered whether NHS boards were complying with pre-employment screening procedures for overseas staff and included testing source documentation in five NHS boards.

During our 2007-08 audit planning process we indicated that, following consideration of Audit Scotland’s report by the audit committee of the Scottish Parliament, we had been requested to undertake compliance testing of records at NHS boards that were not part of the national review.

Audit Scotland reported a high level of compliance and, from a sample of 235 files across five NHS boards, there was evidence on files to demonstrate that 75% of checks were performed. Overall, the Board’s files demonstrate that 74% of checks were performed.

Our work over the design, implementation and effectiveness of controls over overseas recruitment has therefore concluded that controls are designed and implemented appropriately. We reported our conclusions to the chief executive on 1 May 2008 and management are reviewing current processes to ensure compliance with guidance.

[Asset management](#)

The NHS in Scotland owns assets valued at over £4 billion including land, hospitals and equipment. The way these are managed has a significant impact upon service delivery. The NHS is currently undergoing service redesign which will also have an impact on the way assets are managed. The overall aim of the study is to consider the extent to which the NHS manages its assets strategically in order to ensure they are used as efficiently and effectively as possible. The study will highlight areas of good practice and make recommendations where assets can be used more efficiently.

The Board has been selected as a case study site for the review and Audit Scotland is due to hold meetings with management in June 2008. The operations manager is a member of the Audit Scotland study group for this review. Audit Scotland plan to publish their report in the autumn of 2008.

Energy efficiency

The public sector is expected to lead by example in reducing greenhouse gas emissions by implementing various actions, including energy efficiency measures. A performance audit study will examine how well local authorities, NHS Scotland and central government bodies are promoting and improving energy efficiency across their estates.

The study will review energy strategies and include sample visits to a number of sites to follow up on the information provided in electronic questionnaires. The Board was selected as a sample site. Audit Scotland plan to publish their report in the autumn of 2008.

Review of major capital projects in Scotland

Between 2002 and 2007, the Scottish Government and its agencies, non-departmental public bodies and the NHS completed 43 publicly funded major (in excess of £5 million) capital projects valued at £811 million. Audit Scotland's report was published in June 2008 and highlighted the following key messages:

- in general, the achievement of cost and time targets improved significantly as time progressed;
- early cost and time estimates at project approval stage were too optimistic for many major projects;
- cost and time performance is made better after contracts are awarded, as plans are more certain and risks clearer;
- few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment; and
- a more strategic approach to managing capital projects could improve value for money.

Best Value

In April 2002 the Scottish Ministers introduced a non-statutory duty on accountable officers to ensure arrangements are in place to secure Best Value. A baseline review of arrangements to secure Best Value, carried out by Audit Scotland in 2005-06, assessed the Board's position in six out of the ten underpinning characteristics as 'well developed'; the remaining four areas were assessed as 'under development'. A number of actions were subsequently agreed and the director of finance has actively implemented a formal review process, including direct involvement from the audit committee, executive directors and operational management. A policy on Best Value and service efficiency was ratified by the board in July 2007 and was distributed to all budget holders. The Best Value principles are embedded on a Board-wide basis and ownership rests at an operational level outside the finance department. This approach represents good practice in securing Best Value.

We reviewed management's arrangements to consider Best Value and the progress made to strengthen existing processes, focussing on the four areas previously assessed as 'under development'. We found that there was sufficient evidence of actions and processes being implemented to support management's assessment of arrangements over commitment and leadership and responsiveness and consultation areas moving to 'well developed'. We agreed with management's view that, subject to implementation of agreed actions arrangements, over sustainable development and equal opportunities will progress to 'well developed'.

2008-09 onwards

Audit Scotland has 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 has selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). Audit Scotland is currently developing a series of toolkits that auditors will be required to use from 2008-09. Completion of these toolkits will require a detailed examination of arrangements in specific areas. The focus of this work in 2008-09 will be on the use of resources, including efficiency, information management, procurement, asset management, performance management and people management.

Efficient government

The efficient government initiative is a five-year programme with the aim of tackling waste, bureaucracy and duplication in Scotland's public sector. NHS boards need to embrace the efficient government agenda and establish a clear programme for delivering efficiency savings. The 2007-08 year-end outturn included achievement of £2.2 million of recurring efficiency savings, in line with the target agreed in the local delivery plan. Savings were achieved through service redesign, including the sterile services department, more efficient use of locums and a reduction in private sector referrals. Additional non-recurring savings of £0.3 million were realised through staffing reconfiguration within mental health services.

National shared support services

In response to the revised national arrangements for shared services, the Board joined a consortium led by NHS Ayrshire and Arran. The shared ledger "went live" on 16 April 2008, two days later than planned. Despite some initial difficulties regarding the operation of interfaces, the new system is considered to be working satisfactorily. Prior year balances have been transferred to the shared ledger and a data reconciliation is due to take place. The migration to a new ledger has allowed a cleansing of data within the ledger and a streamlining of the cost centre and account code hierarchy to meet operational needs. The shared ledger system includes an enhanced reporting tool that will provide a larger range of management information. Management believes that the consortium will create significant improvements in the technical resilience of the ledger system and offer an enhanced helpdesk support network. Benefits will also accrue from collaborative working between members to identify and share areas of best practice.

Appendix – action plan

Priority rating for performance improvement observations raised		
<p>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.</p>	<p>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.</p>	<p>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.</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>We note the CLO's current view of the stage the equal pay cases have reached and management should continue to work with the Scottish Government Health Directorate and other NHS boards to form a view of the potential liabilities in line with accounting standards, taking into account the progress of cases in Scotland and in England.</p> <p><i>(Grade one)</i></p>	<p>The Board will continue to work with the Scottish Government Health Directorate and other NHS boards to manage and prepare for these cases and as, information round the claims and test cases increases, to form a view on potential liabilities.</p>	<p>Director of human resources and workforce planning</p> <p>Ongoing</p>
2	<p>The Scottish Government Health Directorate has not yet formally notified the level of revenue and capital funding that can be carried forward into 2008-09, but has approved the local delivery plan that includes an assumption around the carry forward.</p> <p>Management should liaise with the Scottish Government Health Directorate to obtain formal confirmation of funding being carried forward into 2008-09 to avoid the risk of late changes to financial plans.</p> <p><i>(Grade two)</i></p>	<p>The Scottish Government Health Directorate has indicated that they will not give any NHS board formal confirmation until they are in a position to decide on the overall Scottish NHS position and funding availability in 2008-09. Both the chief executive and director of finance have had, and will continue to have, dialogue with the Directorate on this important issue.</p>	<p>Director of finance</p> <p>Chief executive</p> <p>Ongoing</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
3	<p>Achievement of the target 2008-09 financial position will require tight budgetary control and staff engagement at all levels of the organisation. The underlying assumptions on which achievement of the target is predicated will present significant challenges for management, including meeting waiting time guarantees and financing the redevelopment of Dumfries and Galloway Royal Infirmary.</p> <p>The process of identifying projects to meet the 2008-09 efficiency target is still underway. While we appreciate that there are sensitivities around the publication of potential schemes, management should consider the timetable for identification of savings projects to ensure that appropriate projects are identified in a timely manner to meet the current shortfall in 2008-09 and to derive maximum in-year recurring benefit from the schemes.</p> <p><i>(Grade one)</i></p>	<p>Noted and agreed. The requirement for staff and public involvement will necessarily lengthen the timescale for delivering on a subset of potential schemes. In year, this puts a greater onus on delivering more on some of the other schemes in order to meet the 2008-09 targets and it is essential that momentum is obtained.</p>	<p>Director of finance</p> <p>Chief executive</p> <p>Ongoing</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
4	<p>The agreement for use of the new West of Scotland medium security unit for mental health forensic patients required a significant financial contribution in 2006-07 out of line with actual patient numbers.</p> <p>While in 2008-09 the payments will be partially based on activity numbers, as well as population, management should consider revising the funding agreement to ensure that the value for money is obtained for the Board's contribution.</p> <p><i>(Grade two)</i></p>	<p>The Board participated in the regional agreement round the funding model for this new service. Basing the initial funding, when respective board usage was unknown and the population in each area was small, on the adult male population was agreed with the local lead psychiatrist as being the most reasonable approach and the bed numbers that it represented were felt to be within the range that we might use. It is common for many national or regional services to use the Arbutnott share as a funding basis. Given the weighting in Arbutnott for both age and rurality, adult male population in this instance was far more likely to give a funding contribution in line with use than accepted alternatives. The Board feels the funding model is an appropriate one to be used in setting up a regional service and acknowledges that, across the full range of regional and national services, there will always be gainers and losers in individual services in year.</p> <p>If there was any instance where an appropriate admission of a Dumfries and Galloway resident to the unit was refused the Board would re-open discussions about its contribution. The Board will also actively track activity and ensure each year the funding formula is revised in line with the agreement to shift from population shares to activity based contributions.</p>	<p>Director of finance</p> <p>Ongoing</p>

