NHS Quality Improvement Scotland

Annual report on the 2010/11 audit

AUDIT SCOTLAND

Prepared for the Healthcare Improvement Scotland Board and the Auditor General for Scotland
July 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages

2010/11

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2010/11 we assessed the key strategic and financial risks being faced by NHS Quality Improvement Scotland (QIS). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

NHS Quality Improvement Scotland was a Special Health Board constituted by article 3 of the NHS QIS Scotland Order 2002. The Public Services Reform (Scotland) Act 2010(a) directed the dissolution of NHS Quality Improvement Scotland as at 31 March 2011. The Board of NHS QIS was responsible for ensuring the effective dissolution of NHS QIS as at 31 March 2011. All property, rights and liabilities of NHS QIS were transferred to Healthcare Improvement Scotland on 1 April 2011.

We have given an unqualified opinion on the financial statements of NHS Quality Improvement Scotland for 2010/11. We have also concluded that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

The Board carried forward a £0.149 million surplus from 2009/10 and, as at 31 March 2011, disclosed a cumulative surplus of £1.020 million, having recorded an in year surplus against revenue resources of £871k.

In the medium to longer term the Healthcare Improvement Scotland Board faces a number of challenges to maintaining its financial position. These include the requirement to meet the Government's savings targets, the future costs of fulfilling the obligations of Healthcare Improvement Scotland in 2011/12 and beyond, and uncertainty over the level of future funding uplifts.

The Board has continued to improve the recording and reporting of its performance information, in order to more clearly reflect performance against its work programme.

During 2010/11, significant improvements were made in purchasing practice and procurement capability, putting in place clearer lines of delegation and authority, in order to secure savings and other associated benefits for the organisation.

In 2010/11, NHS QIS achieved the national HEAT targets in relation to its financial targets, operated with a sickness absence rate of 2.7% (compared to a national target of 4%), and by 31 March 2011 had recorded 98% of its personal development reviews on e-KSF, the NHS Knowledge and Skills Framework tool, as against the target of 80%.

Overall, the corporate governance and control arrangements for NHS Quality Improvement Scotland operated satisfactorily during the year, as reflected in the Statement on Internal Control. The transition from NHS Quality Improvement Scotland to Healthcare Improvement

Scotland, at the end of 2010/11, was effected successfully, with minimal impact on its on-going operations or its governance and accountability processes

We examined the key financial systems underpinning the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Ministers announced, on 6 November 2008, the establishment of Healthcare Improvement Scotland, which would combine all the current functions of NHS QIS, including the Scottish Health Council and the Healthcare Environment Inspectorate, with the registration and regulation of independent healthcare carried out by the Care Commission. The transition to the successor body took place on 1st April 2011, and the Board had identified the most important aspect of this change as being the need to maintain business continuity.

Outlook

The position going forward is becoming even more challenging than previous years with limited increases in funding, increasing cost pressures and challenging savings targets. For 2011/12 the board is planning to achieve savings of £0.9million, which is the fourth year in succession that the organisation has been required to make savings. The challenge for Healthcare Improvement Scotland is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.

The board should continue to progress working with partners both within the NHS in Scotland and outwith the NHS, including councils and the voluntary sector, in order to help the health service meet its strategic objectives.

Introduction

1. This report is the summary of our findings from the 2010/11 audit of NHS Quality Improvement Scotland. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising The report is divided into sections which reflect our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHS Quality Improvement Scotland.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Healthcare Improvement Scotland understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the audit committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public as audit is an essential element of accountability and public reporting.

5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.

6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Directors' Report, statement on internal control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion on the financial statements of NHS Quality Improvement Scotland for 2010/11. The financial statements give a true and fair view of the state of the body's affairs and of its net operating cost for the year.

11. NHS Quality Improvement Scotland was required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

12. We have also reviewed the board's statement on internal control and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of this regularity assertion through a range of procedures, including written assurances from the Accountable Officer. No significant issues were identified for disclosure.

Accounting issues

14. As agreed, the unaudited accounts were provided to us on 9 May 2011 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from staff allowed us to conclude our audit within the agreed timetable and

provide our proposed opinion to the Healthcare Improvement Scotland Audit Committee on 15 June 2011 as outlined in our Annual Audit Plan.

15. A high standard of draft accounts and supporting working papers were provided for our audit. Although a number of presentational issues were found, no significant errors were identified, and no significant issues required to be reported to the Audit Committee on 15 June 2011.

Outlook

Audit appointment for 2011/12

16. Audit appointments are made by the Auditor General, either to Audit Scotland or to private firms of accountants for a five year term. 2010/11 is the final year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for Healthcare Improvement Scotland will be PricewaterhouseCoopers. We would like to thank officers and members of NHS Quality Improvement Scotland and NHS Healthcare Improvement Scotland for their assistance in the audit process. We will work closely with the in-coming audit team to ensure a smooth handover.

Financial position

17. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

18. Auditors consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

19. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2011

20. NHS Quality Improvement Scotland was required to work within the resource limits and cash requirement set by the Scottish Government. For 2010/11 funding and expenditure, the distinction was introduced between core and non-core RRL expenditure. Core expenditure is defined as expenditure funded from baseline allocation, plus additional specific revenue allocations. In relation to NHS QIS, non-core expenditure was limited to depreciation and amortisation of non-current assets, profit or loss on sale of non-current assets, and creation of new provisions. The Board's performance against these targets is shown in Table 1 below.

Table 1 - 2010/11 Financial Targets Performance £'000s

Financial Target	Target	Actual	Variance	%
Revenue Resource Limit				
Core	19,730	18,710	**1,020**	**5.2%**
Non Core	98	98	**0**	
Capital Resource Limit				
Core	122	98	**24**	**19.7%**
Non Core	0	0	**0**	
Cash position				
Cash requirement	20,600	20,567	**33**	**0.2%**

21. The Board brought forward a £0.149 million surplus from 2009/10 and, as at 31 March 2011, disclosed a cumulative surplus of £1.020 million, having recorded an in year surplus against

revenue resources of £871k. The current year's cumulative surplus of £1.020 million has been achieved on recurring funding and expenditure, and a break even position achieved from non-recurring funding and expenditure.

Financial sustainability and the 2011/12 budget

22. The downward trend in financial settlements continued in 2010/11, with a general uplift of 2.15% (2009/10; 3.15%). The allocation uplift for 2011/12 is 1%, however, when combined with a required cash efficiency reduction of 5%, the net reduction in core funding is 4%. In the short term, it should be noted that the 2011/12 net reduction in core funding will be mitigated by the non-recurring carry forward of surplus agreed with SGHD, however, beyond 2011/12 significant reductions in recurring income will require equivalent reductions in expenditure to be made. Budget assumptions are for even greater cuts in 2012/13 and 2013/14, which will have a major impact on long term financial planning and the control of pay and non-pay costs.

Outlook

Financial forecasts beyond 2011/12

23. In the medium to longer term the Board faces a number of challenges to maintaining its financial position. These include the requirement to develop comprehensive cost savings plans to achieve recurring savings, pay increases, utility costs, possible relocation costs and the uncertainty over the level of uplifts.

24. Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2010/11, but there are serious financial challenges ahead and making the required savings through efficiency will become increasingly difficult. Healthcare Improvement Scotland needs to find almost £1 million of savings during 2011/12 to achieve financial balance. The challenge will be to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives, while significantly redeveloping its structure and activities. To support this challenge the organisation has initiated a priority based budgeting approach.

25. The Board is forecasting a broadly breakeven position for the years 2011/12, 2012/13 and 2013/14 following transition to Healthcare Improvement Scotland from April 2011. However, there remains uncertainty over the level of future funding uplifts and efficiency savings targets, so significant revision to these estimates may be anticipated.

Risk Area 1

Pension costs

26. Following the advice of the Scottish Government, Note 17: Pension Costs reflects a net liability of £370million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. Note 1 of the accounts, Accounting Policies, states that the most recent actuarial valuation available was for the year 31 March 2004. Given that the Scheme ought to

be subject to a full actuarial valuation every four years, a more up to date valuation would have been expected to have been reflected in the 2010/11 accounts.

27. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the Scheme.

Governance and accountability

28. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

29. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

30. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
    - corporate governance and systems of internal control
    - the prevention and detection of fraud and irregularity
    - standards of conduct and arrangements for the prevention and detection of corruption.

31. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

32. The corporate governance framework within NHS Quality Improvement Scotland centred on the board, supported by a number of standing committees:
    - Audit
    - Clinical governance and quality assurance
    - Staff Governance
    - Executive Remuneration
    - Scottish Health Council.

33. The following paragraphs provide a brief comment on the main standing committees:
    - **The Audit Committee's** purpose is to provide assurances to the board that appropriate audit and risk governance structures are in place and that NHS QIS' activities comply with the regularity framework applicable to the NHS. In particular, the Committee seeks to ensure that an appropriate system of internal control has been in place throughout the year.
    - **The Clinical Governance and Quality Assurance Committee** provides assurance to the board that appropriate clinical governance mechanisms are in place and are effective.

It seeks to ensure that the principles and standards of clinical governance are applied to the health improvement and health protection activities of the board and that there is effective engagement with patient representatives and staff.

- **The Staff Governance Committee** provides assurance that NHS QIS meets its staff governance obligations under the National Health Service Reform (Scotland) Act 2004 and the Staff Governance Standard.
- **The Executive Remuneration Committee** agrees terms and conditions for staff on executive and senior management pay scales, agrees and reviews performance plans for those staff, and acts as an appeals body in grievance and disciplinary matters.
- **The Scottish Health Council** supports and monitors NHS Boards' activities regarding patient focus and public involvement, and supports Healthcare Improvement Scotland to meet the Duty of User Focus and equalities duties (excluding staff equality issues). The Council has staff based in 15 offices across Scotland.

Patient safety and clinical governance

34. Patient safety is a significant concern to patients, the public and the NHS. One of the priorities for the Scottish Government is to improve patient safety. The Healthcare Quality Strategy for NHSScotland identifies actions for improvements in priority areas based on three healthcare quality ambitions, one of which is *'There will be no avoidable injury or harm to people from the healthcare they receive, and an appropriate, clean and safe environment will be provided for the delivery of healthcare services at all times'*.

35. NHS Quality Improvement Scotland/Healthcare Improvement Scotland has lead responsibility for reviewing boards' performance in relation to patient safety, and for working with boards to improve patient safety. Between May 2009 and May 2010, NHS QIS carried out a second round of review visits to assess NHS boards' compliance with clinical governance and risk management standards. Local reports were produced for individual boards on a rolling basis, and a national overview of performance against the standards was published in November 2010.

36. NHS Quality Improvement Scotland was itself subject to a similar review of its own compliance with these standards. The review was reported in August 2010 and identified the following strengths:

- robust arrangements were in place for the evaluation of individual programmes and projects
- there is comprehensive monitoring of equality and diversity arrangements
- there is a strong commitment to involving all stakeholders in its internal and external communications
- performance management arrangements are embedded at all levels throughout the organisation.

The organisation demonstrated significant improvement against most of the standards, achieving a high level of compliance, with the following recommendations for future actions:

- an overarching business continuity plan needs to be developed
- governance arrangements need to be reviewed to confirm they remain fit for purpose
- improve arrangements for document control across the organisation
- develop meaningful Key Performance Indicators for NHS QIS/Healthcare Improvement Scotland.
- An updated action plan has been agreed to monitor delivery of further improvements.

37. The Healthcare Environment Inspectorate (HEI) was set up in April 2009 as a new inspectorate based within NHS Quality Improvement Scotland. Its remit is to reduce the risk of Hospital Acquired Infections (HAI's) in acute hospitals through assessment, inspection and reporting of boards' performance against HAI standards. The HEI carried out its first programme of acute hospital inspections from September 2009 to September 2010, covering all relevant NHS boards. The 2010/11 programme has continued, with an increase in the number of unannounced inspection visits, and the results of HEI's work have continued to attract a great deal of national attention. The transition from NHS QIS to Healthcare Improvement Scotland has been effectively managed, and does not appear to have impacted on the effectiveness of HEI inspection and reporting.

Partnership Working

38. NHS boards must be able to demonstrate that they are delivering effective services for patients and their carers and achieving value for money. Working in partnership with other organisations, including councils and the voluntary sector, will help the health service to meet its strategic objectives and to address local needs.

39. In *Better Health, Better Care* (2007), the Cabinet Secretary for Health and Wellbeing emphasised the need to work in a coordinated way across Government to develop patient care, and community and public services. The Scottish Government published a new Healthcare Quality Strategy in May 2010. This Quality Strategy is a development *of Better Health, Better Care* and states as one means of attaining its quality ambitions 'working together across NHSScotland, with partners in the Public Sector and Third Sector.' This recognises that improvements in the health of the people of Scotland cannot be achieved by the SGHD or NHS boards alone.

40. NHS QIS/Healthcare Improvement Scotland is involved centrally in supporting the Healthcare Quality Strategy through its support for NHS boards and their staff. A key aspect of the Quality Strategy is the development of the Scottish Quality Improvement Hub, which is a major collaboration between Healthcare Improvement Scotland, NHS Education Scotland, Information Services Division, SGHD and Health Scotland with Healthcare Improvement Scotland taking the lead role. The transition to Healthcare Improvement Scotland appears to have been managed effectively, so that there has been no adverse impact on the development of such initiatives.

41. From April 2011 Healthcare Improvement Scotland took over all the existing functions of NHS Quality Improvement Scotland, and the registration and regulation of independent healthcare, carried out by the Care Commission. Healthcare Improvement Scotland, as the successor body, will need to ensure that existing partnership arrangements, which operated within both the previous organisations, continue to operate effectively under the revised arrangements.

Risk Area 2

Internal control

42. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

43. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2010/11 Scott-Moncrieff, the board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, NHS QIS had an adequate and effective internal control system that provides reasonable assurance regarding the achievement of objectives and the management of key risks, subject to the implementation of agreed actions to address issues in certain internal control areas. In their opinion, these issues, taken together, indicated weaknesses in the management of resources. Management have put plans in place to address these issues under Healthcare Improvement Scotland in 2011/12.

44. As part of our audit we reviewed the high level controls in a number of NHS QIS systems that impact on the financial statements. This audit work covered a number of areas including payroll, cash and bank, accounts payable and general ledger. Our overall conclusion was that NHS QIS had adequate systems of internal control in place in 2010/11. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management.

Internal Audit

45. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). As part of our risk assessment and planning process for the 2010/11 audit we assessed whether we could place reliance on NHS Quality Improvement Scotland's internal audit function. We concluded that the internal audit service operated in accordance with relevant Internal Audit Standards and has sound documentation standards and reporting procedures in place. We therefore placed reliance on their work in a number of areas during 2010/11, as we anticipated in our annual audit plan.

Statement on internal control

46. The Statement on Internal Control (SIC) provided by the Accountable Officer reflected the main findings from both external and internal audit work. This SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.

47. Among other developments during the year, the SIC drew attention to the *Dissolution of NHS QIS and Transfer of Responsibilities, Assets and Liabilities to Healthcare Improvement Scotland*. Details were provided on the process by which formal responsibility was transferred, from the predecessor Board and its committees, to the Healthcare Improvement Scotland Shadow Board on 31 March, 2011, and on the transfer of responsibility for receiving the annual accounts of NHS QIS.

Review of staff earnings over £100,000 per annum.

48. The Cabinet secretary had asked NHS boards for assurance that earnings paid to those staff earning over £100,000 complied with relevant policies and guidance. Auditors were also requested to sample check earnings over £100,000 to give additional assurance on validity of the figures. We did not identify any matters to suggest that the Board had not complied with relevant national policies and guidance relating to pay matters. We reported our findings to the Board Chairman on 28 March 2011 to enable him to reply to the Cabinet Secretary by the required date, 31 March, 2011.

Prevention and detection of fraud and irregularities

49. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

50. NHS Quality Improvement Scotland had in place a number of measures to prevent and detect fraud including Standing Financial Instructions, a Code of Conduct for staff and policies covering 'whistleblowing 'and fraud.

51. Additionally, the Board had a formal programme of internal audit work, which, although not designed to detect fraud, did provide assurance on the operation of the control systems which were designed to prevent fraud.

52. Furthermore, during the year a partnership agreement with NHS Scotland Counter Fraud Services (CFS) was formalised, which will carry into the new organisation. This will promote closer contact and cooperation with CFS thereby helping to promote an anti-fraud culture.

NFI in Scotland

53. During the year, NHS QIS participated in the 2010/11 National Fraud Initiative (NFI) in Scotland. The NFI in Scotland is a counter-fraud exercise led by Audit Scotland, assisted by the Audit Commission (our sister organisation in England). It uses computerised techniques to compare information about individuals held by different public bodies, and on different

financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

54. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

55. As part of our local audit work we carried out a high level assessment of NHS QIS' approach to the NFI. We concluded that the Board was proactive in preventing and detecting fraud including participation in the NFI. The Board's Head of Finance/Finance Manager reviewed all data matches, and provided regular reports to the Audit Committee on anti-fraud activities including updates of NFI investigations.

56. The Audit Scotland report, *The National Fraud Initiative in Scotland; Making an Impact* (May 2010), highlighted that much of the information used in the last NFI round was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.

57. The current NFI round is being carried out under new powers approved by the Scottish Parliament in terms of the Public Finance and Accountability (Scotland) Act (as amended) and which came into force from 20 December 2010. These provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies involved, and allow data matching to be used to detect other crime as well as fraud.

Standards of conduct and arrangements for the prevention/ detection of corruption

58. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in NHS QIS were satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

59. Healthcare Improvement Scotland faces some external challenges as the demands on the organisation's services increase and the organisation continues to adapt in order to support the evolutionary nature of the National Health Service in Scotland**.** Examples include the central role the organisation has in implementing the Government's Healthcare Quality Strategy, and the need to increase cooperation and collaboration with NHS boards, independent healthcare providers, other scrutiny bodies, including Social Care and Social Work Improvement Scotland, and the Scottish Government.

Best value, use of resources and performance

60. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

61. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.

62. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

63. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of best value toolkits to facilitate reviews in these areas.

64. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

65. This section includes a commentary on the best value / performance management arrangements within NHS Quality Improvement Scotland. We also note any headline performance outcomes / measures used by NHS Quality Improvement Scotland and any comment on any relevant national reports and the board's response to these.

Management arrangements

Best value

66. In March 2011, the Scottish Government issued new guidance for accountable officers on best value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.

67. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

68. The five themes and two cross-cutting themes are:
    - vision and leadership
    - effective partnership
    - governance and accountability
    - use of resources
    - performance management
    - equality (cross-cutting)
    - sustainability (cross-cutting).

69. Healthcare Improvement Scotland is committed to best value and has established arrangements to ensure that there is a corporate vision for how best value contributes to effective outcomes for the organisation. An organisational review was carried out in 2010, which will guide the delivery of more effective working and management of resources going forward. The Board has a stated commitment to Best Value by securing continuous improvement, within an appropriate structure of quality and cost.

70. The board is also subject to an annual review process by the SGHD, again with plans developed to address any issues raised.

Performance management

71. The current delivery and performance management arrangements for the NHS were introduced in 2006 by the then Scottish Executive Health Department. These are based around four key ministerial objectives: health improvement, efficiency, access, and treatment (HEAT) and a range of supporting measures.

72. NHS boards are required to produce Delivery Plans which state their planned levels of performance against each of the key performance measures. The HEAT targets which will apply to Healthcare Improvement Scotland, and which applied to NHS QIS as a special health board, are restricted to a small number of the efficiency targets. However, the organisation's work programme is designed to contribute to the achievement of national objectives across the whole of NHSScotland. The work programme and Delivery Plan, as agreed with the SGHD, forms the basis for the Board's performance monitoring, and the Cabinet Secretary's Annual Review process.

73. The organisation has continued to develop its performance reporting system to include integration with the time recording and financial systems, and has improved its board performance reporting arrangements, based on feedback from users. For 2010/11, reporting of performance has been based around the integrated work programme rather than being based on the directorate structure. A key feature has been the Integrated Management System (IMS) introduced in 2010/11, which has enabled the organisation to performance manage each project or programme of work from inception to completion. The organisation is continuing to review the performance reporting system and has plans to strengthen this during

2011/12 to include more informed reporting on the impact the work programme is delivering for NHSScotland.

74. The 2009/10 Annual Review was held in September 2010, covering the whole organisation, including the Scottish Health Council (SHC). It concluded that good progress had been made in meeting all appropriate HEAT targets and that support for the Quality Strategy had been given through a central role in developing the Quality Improvement Hub. It also stated that the Healthcare Environment Inspectorate (HEI) had undertaken excellent work in its first year and that a significant contribution had been made to the Scottish Patient Safety Programme (SPSP), whilst the restructuring of Scottish Health Council had been carried out successfully. The main action points for the Board arising from the review included:

- ensuring that NHS QIS makes the maximum contribution to delivering the Quality Strategy
- ensuring a smooth transition to Healthcare Improvement Scotland while maintaining progress in other key areas
- building on the momentum from the first year of Healthcare Environment Inspectorate visits
- driving and supporting roll out of all strands of Scottish Patient Safety Programme
- fully embedding the new SHC organisational structure, and seeking feedback from staff and stakeholders as to its impact.

Risk Area 3

Service Developments

75. Ministers announced, on 6 November 2008, the establishment of Healthcare Improvement Scotland, which would combine all the current functions of NHS QIS, including the Scottish Health Council and the Healthcare Environment Inspectorate, with the registration and regulation of independent healthcare carried out by the Care Commission. The transition to the successor body took place on 1st April 2011, and the Board had identified the most important aspect of this change as being the need to maintain business continuity

76. Management worked closely with the Scottish Government's Scrutiny Project Change Delivery Group, principally through an internal Transition Group, in progressing the necessary revisions to governance and accountability arrangements. A business model was produced to aid the process for identifying the practical issues which would impact on the new body, and a project plan was formed to manage the transition in detail.

77. A 2011/12 operating plan for Healthcare Improvement Scotland was produced and submitted to the Scottish Government in June, 2010. The development of operational details for the new body, and the planning to ensure that day to day operations of NHS QIS and the Care Commission were not compromised in the lead up to the transition, presented significant challenges to management and staff. Governance and accountability processes appear to have been transferred effectively to the successor body.

78. Healthcare Improvement Scotland has commenced a programme of organisational development and service redesign in order to align its activity with its new roles and responsibilities. A major part of its redesign programme is the introduction of a new Healthcare Scrutiny Model, in response to the Crerar Report, which is risk based and applied proportionately.

Risk Area 4

79. During 2011/12 Healthcare Improvement Scotland will undertake an internal programme of organisational development work. This process may impact on staff engagement while there is uncertainty over the final structure of the organisation.

Risk Area 5

Improving public sector purchasing – follow-up audit

80. In 2010/11 we carried out a follow-up review focused on the progress made in NHS QIS' purchasing practice since the publication of Audit Scotland's report on *'Improving public sector purchasing'* in July 2009. Overall, we found that NHS QIS had made significant progress in strengthening its purchasing processes and arrangements. The Board participated in the national Procurement Capability Assessment (PCA) process in 2009 and 2010. A non-conformant assessment had been recorded in 2009 and, in response, a Procurement and Efficiencies Manager was appointed to develop a strategy and relevant policies, and to provide support and guidance for procurement activity. In the 2010 PCA, QIS recorded a conformant assessment in all assessment areas. A Procurement Strategy, and underlying Procurement Policy, has now been implemented, with systems for tracking benefits achieved and monitoring associated risks.

81. A brief report has been issued to management for approval during July. This report contains details of key findings, areas of good practice and areas with scope for improvement.

Overview of performance in 2010/11

82. Only two of the SGHD's non-financial HEAT targets are directly relevant to NHS QIS/Healthcare Improvement Scotland and these are the achievement of a sickness absence rate of 4%, and the target of having 80% of employees with their annual Knowledge and Skills Framework (KSF) development reviews completed and recorded on e-KSF by 31 March, 2011. Sickness absence rate at 31 March 2011 was 2.7%, which is slightly poorer than prior year (2.4%) and, as at 31 March 2011, 98% of KSF development reviews were recorded in e-KSF.

83. NHS Quality Improvement Scotland successfully delivered its 2010/11 Work Programme, as set out in its 2010/11 LDP. Substantially all of the planned projects were delivered on time.

National performance reports

84. Audit Scotland's Performance Audit Group undertakes a programme of national studies each year, in consultation with key stakeholders, on behalf of the Accounts Commission and the

Auditor General for Scotland. The findings and key messages of these studies are published in national reports which are publicised and widely distributed. In addition, they are also available on Audit Scotland's website (www.audit-scotland.gov.uk). Audit Scotland's expectation is that NHS boards should consider the findings contained in national reports and identify actions to be taken locally. The following reports were issued during 2010/11:

- Using Locum Doctors in Hospitals (June 2010)
- Emergency Departments (Aug 2010)
- Financial overview of the NHS in Scotland 2009/10 (Dec 2010)
- Role of boards (Dec 2010)
- Management of the Scottish Government's capital investment programme (Jan 2011)
- Improving Energy Efficiency (March 2011)
- Community Health Partnerships (June 2011)

Outlook

Performance

85. The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. Healthcare Improvement Scotland should continue to respond to this important initiative as it develops.

86. It will be important to continue to refine the capabilities of the Integrated Management System (IMS), introduced in 2010/11, in order to more effectively manage the organisation's core work programme, and its other activities. Management has correctly identified the overriding need to be able to demonstrate Healthcare Improvement Scotland's impact on delivery of health improvements across NHSScotland.

Service Redesign

87. Healthcare Improvement Scotland's Independent Healthcare regulatory activity may result in recurring cost pressure on the Board's financial plan in future years. More significantly, the organisation's governance and accountability arrangements will be tested in taking on the potential new inspection role arising from the Care Commission responsibilities transferred.

88. It will be critical for Healthcare Improvement Scotland to successfully complete its reorganisation programme to more effectively meet the challenges of its new roles and responsibilities. A key element will be the development and implementation of the new Healthcare Scrutiny Model.

89. Healthcare Improvement Scotland has identified the need to strengthen its capacity in the core areas of analysis, improvement science, organisational, project management and negotiating & influencing skills across all employee groups. This may require significant changes in the skills mix and flexibility of the workforce and may impact on staff engagement and morale.

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	23 November 2010	7 December 2010
Annual Audit Plan	22 February 2011	8 March 2011
Review of staff earning over £100,000 p.a.	28 March 2011	8 August 2011
Internal Controls Management Letter	31 May 2011	15 June 2011
Report to Audit Committee in terms of ISA 260	8 June 2011	15 June 2011
Independent auditor's report on the financial statements	8 June 2011	15 June 2011
Improving Public Sector Purchasing – Follow-up audit	13 July 2011	12 October 2011
Annual report to members and AGS	29 July 2011	8 August 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	25	There is a risk that the Board may not be able to achieve financial balance beyond 2011/12, due to the uncertainty over future funding uplifts and efficiency savings targets, and how these will impact on its new role and responsibilities.	The Board has set out the financial plan for 2011/12 using a priority based budgeting approach which challenges historic spend. This approach will continue beyond 2012/13 and will require difficult decisions in terms of the level of budget which can be applied to our various delivery units. The Board will be liaising closely with Scottish Government Health and Social Care Directorates to ensure that extensions to our role are adequately supported by an agreed underpinning financial and workforce strategy. Key to this will be the Boards internal mid year review of financial performance; we will report on this to the Board in October 2011. During November 2011 we will commence our planning to support the financial challenge during 2012/13 and beyond; this will form part of the Local Delivery Planning (LDP) process.	Head of Finance	Mid-Year Review - October 2011 Preparation for the 2012/13 LDP process - November 2011

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
2	41	There will continue to be a risk, in the short term, that existing partnership arrangements, which operated within the predecessor organisations, will be adversely affected as Healthcare Improvement Scotland develops its new role.	Positive communication, staff engagement and proper involvement with the Employee Director and Partnership Forum are key aspects of the Organisational Change Policy & Procedure, and these will be reflected in Healthcare Improvement Scotland's continued change management planning as the focus moves to senior management posts below Director-level and the establishment of more flexible working practices throughout the organisation.	Chief Executive	Staff engagement will be reported to the Staff Governance Committee quarterly.
3	74	The new organisation may not make adequate progress in the priority areas identified for action in the NHS QIS 2010 Annual Review.	We have maintained close partnership working with staff throughout the transition to HIS. We are undertaking a number of areas of work in close cooperation with other national health boards and SCSWIS. We have made good progress on our support for the implementation of the healthcare quality strategy; specifically in supporting the new delivery groups and infrastructure group of the Quality Alliance Board. The Hub is further developed. The HEI methodology is being adapted for the	Chief Executive	These are mostly completed and will be reported as part of the annual review process. Ongoing.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			inspection of care of older people in acute hospitals. Output from HEI reports is now feeding into our HIA improvement work. We continue to support boards deliver the Scottish Patient Safety Programme. The Scottish Health Council is now fully integrated into Healthcare Improvement Scotland.		
4	78	There is a risk that the Healthcare Scrutiny Model may not be fully implemented within an appropriate timeframe.	Development and Implementation of the Healthcare Scrutiny Model is overseen by the Evidence, Improvement and Scrutiny Committee of the Board and is managed by the HSM Implementation Team which reports to the Executive Team monthly. It is on schedule to be rolled out from April 2012	Chief Executive	The new healthcare standard is now going out for consultation. The Quality risk Profiles are now being tested and the implement-ation of the HSM will be monitored through the EIS Committee. It will be ready to start full implement-ation in April 2012.

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	79	There is a risk that the internal programme of organisational development work may impact on staff engagement.	The 2010 Staff Survey feedback indicated an improvement in terms of staff engagement as against the 2008 results. This positive record has been built upon during the consultation process leading to the establishment of Healthcare Improvement Scotland in April 2011, and is continuing as the change focus progresses throughout the organisation during 2011/12. This will include exploratory & planning discussions with the Employee Director, engagement with the Partnership Forum over specific change proposals, and formal consultation with affected staff as and when required in the event that proposed changes directly impact upon them.	Chief Executive	Staff engagement will be monitored through the Staff Governance Committee. Ongoing