



Greater Glasgow NHS Board

Board Meeting
Tuesday 26 July 2005

Board Paper No 05/47

PricewaterhouseCoopers

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**EXTERNAL AUDIT
ANNUAL REPORT TO BOARD MEMBERS 2004/2005**

Recommendation:

Members are asked to consider the attached Annual Report to Board Members by the external auditors, PricewaterhouseCoopers.

Background

The Annual Report to Board Members is issued as an element of the statutory audit of the NHS Board's Statement of Accounts for 2004/2005. It is primarily designed to direct Board Members' attention to matters of significance that have arisen out of the audit process and to confirm the action planned by management to address the more significant matters identified for improvement.

NHS Greater Glasgow

Annual Report to Board Members

2004/05 Audit

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Our ref: CDR/MW/LM

Ladies and Gentlemen

Annual Report to Board Members 2004/05

We have completed our audit of Greater Glasgow NHS Board (the "Board") and its financial statements for the year ended 31 March 2005.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2004/05 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

PricewaterhouseCoopers LLP

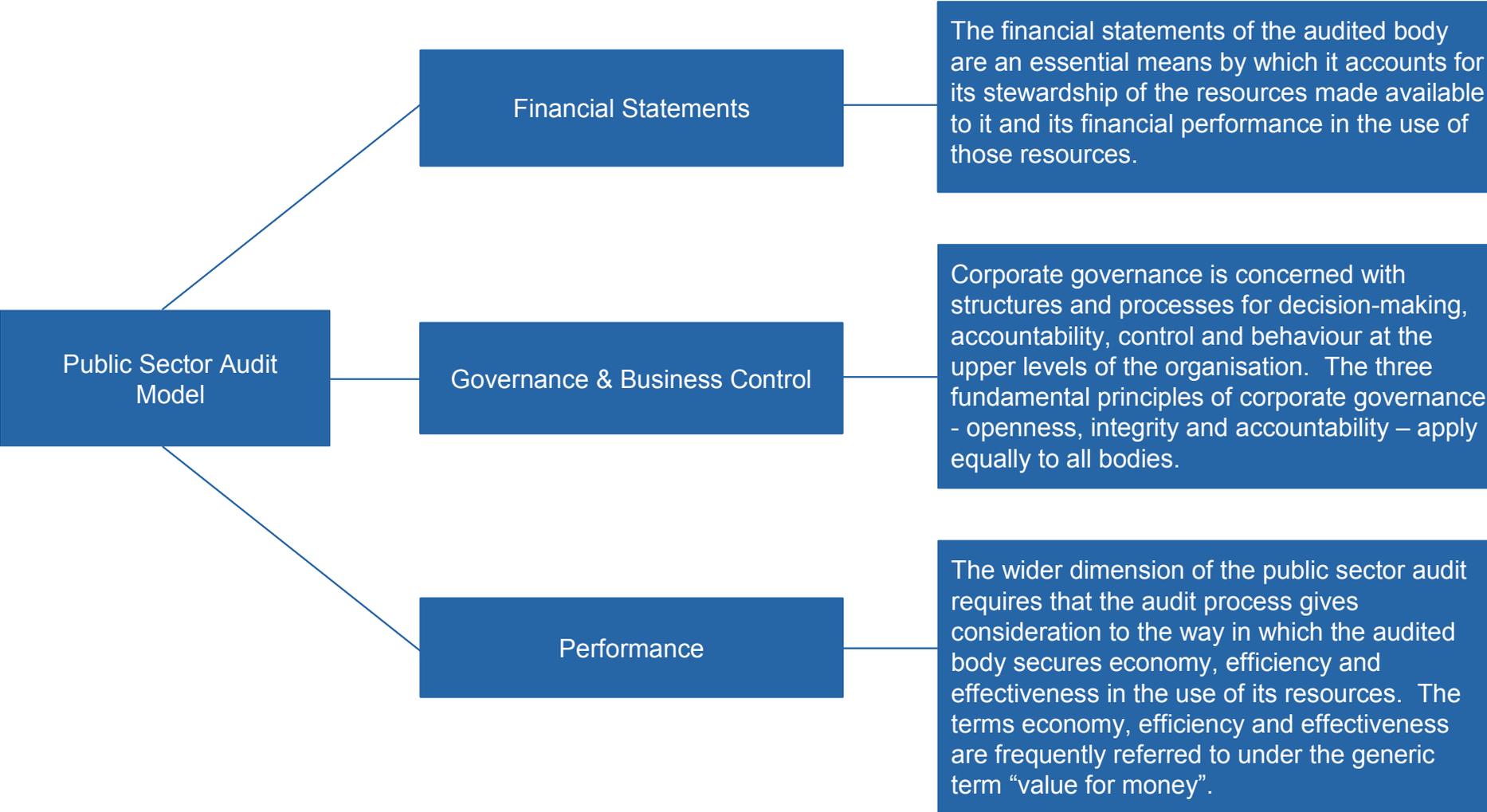
Our Report Structure

Our report structure reflects our wider public sector audit responsibilities as set out in Audit Scotland’s Code of Audit Practice.

The Model

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Explanation



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1. Audit Opinions and Financial Targets

Our Audit Opinion

- 1.1 Our audit opinion concerns both the true and fair statement of NHSGG's financial results for the year ended 31 March 2005 (2004/05) and the regularity of its income and expenditure in the year.
- 1.2 Our true and fair opinion on the financial statements is unqualified.
- 1.3 Our regularity opinion on income and expenditure draws attention to patient exemptions with regard to pharmacy, dental and ophthalmic charges.
- 1.4 The Counter Fraud Services (CFS) of the National Support Services (NSS) performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for NHS Greater Glasgow for 2004/05 suggests that exemptions amounting to £6.1 million may have been given that were not eligible. As a result of the work by the CFS and the potential control deficiencies which may exist, the Board has outlined this matter concerning patient exemptions in its Statement of Internal Control and Directors Report. We also draw attention to this matter in our audit opinion.
- 1.5 Our opinion is set out in full in **Appendix 3**.

Financial Targets

- 1.6 The Board achieved its three financial targets of:
 - The net resource outturn did not exceed the Revenue Resource Limit (RRL) - the Board spent £1,268 million against its RRL of £1,280 million, resulting in a surplus of £12.1 million.
 - Staying within its Capital Resource Limit (CRL) – the Board spent £66.154 million against its CRL of £66.213 million.
 - The Board did not exceed its Cash Requirement Target - the Board spent £1,218 million against a limit of £1,219 million.

2. Financial Performance and Position

2.1 It is emphasised that we do not express a specific audit opinion on the figures which follow on pages 7 and 8 – these have been extracted in agreement with management from various reports, supporting papers and other available documentation.

<u>NHSGG's Overall Financial Out-turn Reported for 2004/05</u>	£'000
Hospital, Community and Family Health Costs	(1,655,904)
Hospital, Community and Family Health Income	337,386
Total Clinical Services Cost (net spend)	(1,318,518)
Net Administration and Non-Clinical Spend (net spend)	(15,057)
Net Operating Cost	(1,333,575)
Family Health Services Non Discretionary Allocation	64,592
Capital Grants and Other Allocations	926
Net Resource Outturn	(1,268,057)
Notional Revenue Resource Limit	1,280,160
Surplus for year	12,103

<u>Projected and Actual Financial Position 2004/05</u>		£'m	£'m
Projected gross funding deficit reported at June 2004			(58.8)
1.	Additional Projected Income:		
	i West of Scotland Health Board Income		10.0
	ii SEHD Funding (non recurring)		12.2
2.	Projected savings:		
	i Recovery plan – savings (recurring and non recurring)		22.0
	ii Slippage in ring fenced income (utilised for 2004/05 recurring spend)		10.0
Projected financial position for 2004/05 (at June 2004) - Deficit			(4.6)
3.	Additional ring fenced income not spent in 2004/05		7.9
4.	Results of further cost containment measures:		
	i Funding allocations for service developments, not fully committed/utilised in 2004/05	11.5	
	ii Divisional surpluses (mainly Primary Care Division surplus of £4.524 million)	5.0	16.5
5.	Land Sales		1.3
6.	Reduced level of income from other West of Scotland Health Boards		(7.8)
7.	Release of provisions not required (principally relating to Agenda for Change)		2.5
8.	Final consolidation accounting adjustments:		
	i Impairment of fixed assets	(2.1)	
	ii Provision for restructuring costs	(1.8)	
	iii Other	0.2	(3.7)
Actual financial position for 2004/05 - surplus			12.1

<u>Projected Financial Position 2005/06</u>		£'m	£'m
Actual Reported Surplus – 2004/05			12.1
1.	<u>Less: Non Recurring Income in 2004/05</u>		
	i SEHD Funding	(12.6)	
	ii Land Sales	(1.3)	
	iii Ring-fenced Funding (funding for specific purposes)	(8.0)	(21.9)
Opening Underlying Deficit 2005/06			(9.8)
2.	<u>Additional Funding – 2005/06</u>		
	i SEHD Uplift 2005/06	74.0	
	ii Other West of Scotland Health Board income	6.0	
	iii Asylum Seekers Services	1.5	81.5
3.	<u>Additional Expenditure – 2005/06</u>		
	i Prior year recurring expenditure commitments brought forward	(16.4)	
	ii Prior year non recurring expenditure commitments brought forward	(5.4)	
	iii Inflation and other pressures – 2005/06	(60.1)	
	iv Local Health Plan commitments – 2005/06	(26.7)	
	v Less: Forecast of deferred expenditure carried forward to 2006/07	9.0	(99.6)
4.	<u>Savings Plans/Additional Income - 2005/06</u>		
	i Cost Savings Plans (recurring)	10.0	
	ii Land Sales (non-recurring)	7.5	17.5
Forecast Deficit – 2005/06			(10.4)

High Level Commentary

- 2.2 The projected deficit of £4.6 million continued to be reported to the Board and PRG throughout the year. The improved position resulting in a £12.1 million surplus was first reported to the Board and PRG in May 2005.
- 2.3 The principal factors which moved the projected £4.6 million deficit to a £12.1 million surplus were funding allocations for service developments, not fully committed/utilised in 2004/05 (£11.5 million) and Divisional level surpluses of (£5.0 million total, principally as a result of a slowing in the rate of growth of prescribing at the Primary Care Division).
- 2.4 Management has and is actively improving the way in which NHSGG's finances are reported to the Board and PRG. (refer to Section 12), **ACTION POINT 1**
- 2.5 Savings achieved were both recurring and non-recurring. Management forecast that certain elements of those categorised as non-recurring can be reasonably expected to recur in future years.
- 2.6 NHS Greater Glasgow put in place a range of cost containment measures (in addition to its planned recovery plan) that resulted in a sizable additional saving in 2004/05 than initially projected.
- 2.7 We understand that NHSGG is actively considering further measures to address the 2005/06 forecast deficit of £10.4 million. **ACTION POINT 2**
- 2.8 All of the above comments and level of figures (£millions) quoted should be read in the context of an organisation that spends (in gross terms) around £1.655 billion per year.

Continued Cost Pressures

Pension Rates

- 2.9 The impact of increased employer pension rates from 5.5% to 14% in 2004/05 was not a contributory factor to the movement in outturn as the additional costs of £46.8 million were matched with additional funding provided by SEHD.

Agenda for Change

- 2.10 Agenda for Change is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, aid recruitment and retention and allow for the personal development of staff. The new pay structure will consist of nine pay bands and several pay points within each pay band. Individual posts will be placed in the correct pay band by either matching the job to the national profile or a local job evaluation.
- 2.11 A pan Glasgow project steering group was established in 2003/04 by the Board which is co-chaired in partnership by the Chief Executive of Yorkhill Division and a full-time Union representative, with regular input from the Board Director of Human Resources, and has met every six weeks.
- 2.12 NHSGG is currently working towards full implementation of the Agenda for Change requirements. The initiative is being rolled out on a pan Glasgow basis. This has been facilitated by the use of Glasgow wide focus groups such as the Agenda for Change Steering Group and the Financial Issues Group which focus on the financial impact of pay modernisation.

2.13 NHSGG began the job matching process in January 2005. Glasgow wide, approximately 30,000 jobs of which between 3,000 and 4,000 posts need to be matched to the Agenda for Change framework. Job matching was originally scheduled to be finished in April/May 2005 with assimilation (matching the job descriptions to the National Priorities and onto the pay-bands) due to complete in early 2006. The matching process has now been re-scheduled for September 2005.

2.14 Progress at the beginning of July 2005 can be summarised as follows:

- 987 posts have been matched, covering 4,850 employees.

ACTION POINT 3

This is behind schedule, but we understand that additional resources have been allocated to support those involved with job matching to ensure improved progress.

2.15 In 2004/05, it is estimated that the cost of implementing Agenda for Change was £7.32 million (accrued in the 2004/05 Final Accounts).

2.16 The cost of implementing Agenda for Change has been identified as a major cost pressure in the 2005/06 budget. It accounts for a significant proportion of an overall provision for pay inflation of £39 million in 2005/06. This projection includes an amount to cover the potential cost of backfilling additional holiday entitlement.

General Medical Services Contracts

2.17 The General Medical Services (GMS) contract came into effect from 1 April 2004 and represents a fundamental change in the way that General Practitioners are contracted with the NHS.

2.18 In 2004/05, the Scottish Executive Health Department funded Health Boards at £75 per point on an average Quality Outcome Framework (QOF) points score of 672 (revised down from an initial funding assessment of 850 points). However, GP practices in NHS Greater Glasgow achieved approximately 1000 points on average, creating a £4.5 million funding shortfall (total expenditure of £13.9 million compared to funding of £9.4million), which NHSGG funded through other efficiencies and savings.

2.19 A summary of the overall increased funding provision for primary medical services in 2005/06 which relate to the GMS contract is provided below:

Element of GMS Contract	Increase of Funds £'Million	Purpose of Funding
Quality Outcome Framework (QOF)	8.85	This increase brings the funding for QOF to a level that would cover an achievement of an average of circa 1,000 points at £120 per point in 2005/06 (2004/05 £75 per point)
Other Board Funds	2.15	This will cover committed premises expenditure and increased costs of out-of-hours services. SEHD has made no additional funding available for enhanced services provision by GP practices in 2005/06.
TOTAL INCREASE	11.00	

- 2.20 SEHD has provided funding for the implementation of the new QOF on the basis of an average achievement by all GP practices in Scotland of 79.5% of the maximum points attached to the quality indicators which are contained within the QOF. NHSGG has added £4.5 million funding from internal resources to top this up and allow for an achievement of circa 1,000 points for Glasgow practices to be funded in 2005/06.
- 2.21 For 2005/06 it is estimated that a potential funding shortfall of £1.6 million could arise, principally in relation to enhanced services.
- 2.22 NHSGG will require to cover the funding shortfall outlined above from other funding sources.
- 2.23 In summary, implementation of the new GMS contract arrangements has brought with it a number of areas of real cost pressure. NHSGG's strategy for managing these risks is to take whatever steps are necessary and appropriate to contain any expenditure pressures which arise within the overall envelope of funds made available for implementation of the GMS contract, using cost savings achieved on other areas to bridge any residual funding gap.

Consultant Contracts

- 2.24 The implementation and effective delivery of the requirements of the Consultant Contract Framework is a critical element of the Scottish Executive Health Department improvement programme. The new contract provides increased levels of remuneration relating to time based contracts and agreed job plans. The job planning process is based around service needs and priorities; this involves agreement on hours worked linked to service and workforce planning.
- 2.25 The majority of consultants employed by the NHSGG Board have now transferred to the new contract.
- 2.26 The costs of implementing the Consultant Contract, reflected in the 2004/05 accounts, amounted to £20.3 million (including routine pay inflation), against an initial projected cost of £17.2 million.

Waiting Times

- 2.27 NHS Greater Glasgow has identified national waiting times targets as one of its key performance indicators. There are well developed waiting times monitoring systems in place with regular and detailed performance information being submitted from the Divisions to the Board on a regular basis.
- 2.28 The Board had agreed to two main waiting time targets. One relating to outpatients; the other to inpatients/day cases. For both areas the target related to patients waiting beyond 26 weeks. For 2004/05 no more than 12,000 outpatients and 700 inpatients/day cases were to wait longer than 26 weeks.
- 2.29 The outpatient performance target was achieved by the end of March 2005, with 9,029 patients waiting more than 26 weeks.
- 2.30 In terms of the inpatient/day case performance, it was always considered by management that this would be a more difficult target to achieve. However, the target was achieved with 531 inpatients/day cases waiting more than 26 weeks.
- 2.31 Spend on waiting times in 2004/05 to achieve these targets was reported as £17.73 million, with £6.16 million funded recurrently and £11.16 million funded non-recurrently. NHSGG has used the National Waiting Times Centre and private provision to ensure the waiting times target was achieved.
- 2.32 SEHD has set an 18 week maximum wait for both outpatients and inpatient/day case treatments, to be achieved by 31 December 2007. It is anticipated that achievement of the 2007 targets will be challenging both in operational and financial terms.

3. The Audit Process and Accounting Issues

Changes from 2003/04

- 3.1 From April 2004, "Partnership for Care" removed organisational barriers in local health systems with the dissolution of NHS Trusts. The four Glasgow Trusts transferred their functions, staff and assets to new operating divisions of the NHS Greater Glasgow Board.
- 3.2 This new structure has removed the obligation for Divisions to produce statutory accounts. Instead, detailed Divisional accounts templates were produced at the year end, which did not require a specific audit opinion.

Audit Process

- 3.3 The Divisional accounts templates were audited by us during May and June 2005. Presentations have been made to each Divisional Audit Committee outlining the audit process, financial performance and audit issues arising. The overall quality of the accounts templates and working papers were of a reasonable standard.
 - 3.4 Thereafter a consolidation exercise was undertaken at Headquarters level, including various consolidation adjustments. This produced various schedules which were utilised to produce overall statutory accounts during late June/early July 2005. This documentation and the statutory accounts were audited during late June/July 2005. The consolidation process has worked well and in a transparent manner. The main matter requiring attention in future years relates to the removal of inter-division trading from the consolidated accounts, where supporting schedules and evidence was not of an appropriate standard.
- ACTION POINT 4**
- 3.5 This effective audit process at divisional and consolidation level was achieved against the backdrop of moving to a shared financial service and significant changes to the format of the accounts. The relationships and knowledge established over previous years proved invaluable in completing the process within the required deadlines.

Preparation of Financial Statements

- 3.6 The NHSGG Board financial statements were prepared in accordance with the accounting requirements contained in the NHS Board Manual for Accounts & supplementary guidance, as issued by the Scottish Executive Health Department (SEHD) and approved by the Scottish Ministers.

Revaluation of Land and Buildings

- 3.7 Following difficulties with the 2004 fixed asset revaluation exercise, SEHD issued a revised set of instructions to Scottish Boards advising them that the 2005 process should be more flexible to better reflect the replacement cost of existing assets taking account of location, modern building techniques and materials.
- 3.8 Following these SEHD instructions, the NHSGG Board appointed an independent private surveyor to carry out a separate valuation of the majority of the estate. NHSGG management believes that this valuation sets more realistic market values for non-operational properties than the previous work of the Valuation Office Agency.
- 3.9 The overall effect on the land and buildings of NHSGG was a net increase in value of £31 million. This will increase the level of capital charges in future years.

Debtors

- 3.10 Cashflow from the University of Glasgow is problematic on account of the time taken to pay NHSGG. The NHSGG debtor totalled £1.6 million at 31 March 2005, with approximately a quarter of this aged over 90 days.
- 3.11 The University previously paid by standing order, however this arrangement has now ceased and no further payments were received towards this balance at the time of our audit work in early June. **ACTION POINT 5**

Cedar System

- 3.12 A number of issues were encountered during 2004/05 in relation to the implementation of the new Cedar system (financial ledger and other supporting processes). In particular this issue arose at PCD and SGD and concerned, for a period, the need for invoices to be processed through the old system. This has now been resolved with one ledger system operating across Glasgow, although it did result in certain audit adjustments to year end balances at SGD.

Medical/clinical negligence claims position:

- 3.13 The medical/clinical negligence position is as follows:

	2004/05	2003/04
	<u>£'000</u>	<u>£'000</u>
Compensation payments made in year	3,494	1,153
Provision in accounts	9,030	9,780
Contingent liability in accounts (possible obligations where outturn is uncertain)	15,320	15,407

- 3.14 The provision and contingent liability levels are broadly similar year on year, based on the required calculation method set out within the Manual of Accounts. It is nevertheless worth noting that the level of in year settlements increased by £2.341 million.

Audit Adjustments

- 3.15 Various audit adjustments were noted, agreed with management and amended in the Divisional accounts or processed through the accounts as part of consolidation.

Other matters arising

- 3.16 A number of other matters have been raised with Divisional Management Teams, discussed with Divisional Audit Committees and either resolved or agreed for action. None of these matters require to be reported in this Final Report.

4. System of Internal Control

Statement of Internal Control

- 4.1 Our opinion is unqualified on the Board's disclosures contained in the Statement of Internal Controls. The Board has used the correct format for its Statement of Internal Control. The Statement has outlined the processes designed to identify and evaluate principal risks on a Glasgow wide basis. In addition, key elements of the Board's control framework have been highlighted including internal and external audit, risk management, and clinical governance, including the work of the Risk Management Steering Committee.
- 4.2 The Statement also outlines details of control deficiencies in relation to Family Health Service (FHS) patient exemptions. This matter has also been referred to in our audit opinion – see Section 1.
- 4.3 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement. The Statement is in the format presented by SEHD.

Follow Up Report on previous control matters raised for action

- 4.4 Follow up reports on our 2003/04 control recommendations were issued to Divisional Management in January 2005. A pan-Glasgow summary was presented in a report to the NHSGG Audit Committee in March 2005.
- 4.5 Progress can be summarised as follows:

	Number of Recommendations			
	PCD	NGD	SGD	York
Implementing locally (fully or partially)	20	21	26	14
Outstanding locally	-	1	4	-
No longer applicable	2	1	2	4
Requiring Board wide action	2	1	-	-
TOTAL	<u>24</u>	<u>24</u>	<u>32</u>	<u>18</u>

4.6 Key areas requiring further action by NHSGG at the time of our review were as follows:

- Need to develop, test and implement a NHSGG wide Business Continuity Plan and Disaster Recovery Plan
- Need for improvements in control over stores, physical security and robustness of stock counts
- Need to keep up to date and utilise authorised signatory lists, in particular for requisitions
- Need to improve management and control around working time directive requirements

Management have agreed action plans at divisional and pan Glasgow (where relevant) levels to address these issues.

ACTION POINT 6

Financial Systems and our 2004/05 Internal Controls Report

4.7 Internal Control Reports were also presented to Divisional Management teams in March 2005. These reports were produced following our various visits during February/March 2005 and considered financial governance arrangements and internal control systems operating in 2004/05.

4.8 A summary of these findings was included in the March report to the NHSGG Audit Committee. Areas where management action was agreed concerned:

- The need to put in place improved financial reporting at Board level, supported with standardised Divisional reports and including better links between activity and spend.
- The establishment of a centrally held contract register.
- The need to ensure that all Executive Directors are made fully aware of their personal objectives and that these objectives are approved before the start of each financial year.

4.9 Management have agreed action plans at divisional and pan Glasgow (where relevant) levels to address these issues.

ACTION POINT 6

Internal Audit's Report on the Board's Internal Controls

4.10 The extract from the Internal Auditor's opinion for 2004/05 (received by the Board on 12 July 2005) is reproduced below:

"On the basis of the work undertaken in the year ended 31 March 2005 we consider that the Board generally has an adequate framework of control over the systems we examined (subject to implementation of the recommendations). In providing such an assessment we would draw to your attention our summary findings as presented in our individual reports issued throughout the year".

Termination Packages

4.11 The Board had no reported settlements for senior officers during the year.

5. Standards of Conduct, Integrity and Openness

Single System Working

Background

- 5.1 It is acknowledged that progress towards a fully functioning single system had been planned over a two year period ending 2006. Progress is now tangible and real changes are evident throughout the organisation.
- 5.2 The approval of a new organisational Structure, and the communication of this plan to Non-Executive Members and Senior Managers, was a major milestone in the change process, and it is recommended that governance and control arrangements around this structure are approved and implemented as a matter of priority.

Governance Approach

- 5.3 Given the scale and complexity of the governance and management arrangements that existed pre 1 April 2005, it was recognised that attaining a single system solution would be difficult to achieve. As a result, the Board decided to adopt a staged approach to single system working that included the operation of transitional governance arrangements prior to full implementation
- 5.4 During 2004/05 further work has been undertaken by the NHSGG Board to develop proposals and action plans to implement single system working across the unified structure. This was issued for consultation in December 2004.
- 5.5 In February 2005, the Board considered consultees' comments on the new organisational arrangements proposed in order to implement the next steps of the "*Partnership for Care*" White Paper. This included agreement on the new organisational structure.
- 5.6 At the March 2005 Board meeting, the Chief Executive provided a progress report across key strands of work, which included clinical governance, risk management and other governance arrangements. It is intended that the new governance arrangements will be implemented following completion of the annual accounts and annual review processes. Existing arrangements will continue through to implementation.

- 5.7 These proposals will pave the way for moving to the detailed development of new organisational structures incorporating:
- **Establishment of Community Health Partnerships** – Schemes of Establishment have been submitted for approval to the Health Minister for eight of the proposed CHP's.
 - **One Acute Operating Division** - an Acute Operating Division will be implemented for the planning and delivery of all acute services across NHS Greater Glasgow. These services will be managed by eight major Directorates that will exist within the Division, each led by a nominated Director.
- 5.8 These new arrangements will also reflect Public Health, Health Promotion and Planning - consideration of the extent to which resources from the Board's Public Health, Health Promotion and Planning Directorates will be devolved to the new delivery organisations and ensuring that CHPs, in particular, are supported in discharging their roles in improving health and tackling inequalities.
- 5.9 Through its Child Health Strategy Group, the Board recognises the importance of ensuring that Community Child Health Services linked with Children's and Family Social Work Services forms part of the CHP structure.
- 5.10 Similar consideration is being given to the appropriate structures for delivering Mental Health Services.
- 5.11 The element of the governance arrangements which saw the introduction of divisional governance fora was not as effective as planned. Certain governance Committees were not always quorate and their links to the NHSGG Audit Committee was not wholly effective.
- 5.12 The past year has been a period of planned transition for NHS Greater Glasgow, and has brought a whole new set of challenges for the organisation. As NHSGG enters 2005/06, these challenges will increase. It is therefore imperative that a robust and dynamic governance framework is put in place, with established processes of communication and control, is understood by all.

ACTION POINT 7

Integrated Financial Services

- 5.13 Work has been ongoing to implement an integrated finance organisation to support single system working, with tangible results becoming evident.
- 5.14 A Glasgow Integrated Financial Services (GIFS) Group has operated throughout 2004/05 and has commenced the implementation of a "single system" Operational Financial Services structure. Interviews and appointments to this structure were completed during March 2005.
- 5.15 In addition to the GIFS Group, NHSGG has in place a pan Glasgow Financial Issues Group (FIGS) which is responsible for addressing pan Glasgow financial issues and includes both internal and external representatives.
- 5.16 Financial ledger integration has now been undertaken by the five divisions, with the Yorkhill Division migrating to the new CEDAR system in June 2005. In relation to the implementation process for the new ledger system, certain teething issues were encountered which have now been resolved (see paragraph 3.12).

6. Report on Interviews with Non Executive Directors

- 6.1 We interviewed a number of Non Executive Directors, including Divisional Chairs of NHSGG.
- 6.2 We collated their views on a number of issues to assist improvements in governance and non Executive involvement/understanding within NHSGG.
- 6.3 Through this period of transition for NHSGG, the key themes considered in the report were as follows:
- The Board, Roles and Responsibilities;
 - Governance – Monitoring Performance;
 - Single System Working;
 - Community Health Partnerships (CHPs); and
 - The Acute Services Strategy
- 6.4 It is also worth noting that the Chairman (supported by the Chief Executive) has already taken (or is in process of undertaking) further action to address the matters raised in this report concerning Non-Executive roles and responsibilities, the Board seminar programme, Board reporting and governance arrangements under single system working (in particular in relation to CHPs). **ACTION POINT 8**
- 6.5 The report has been submitted previously to the 13 June 2005 Audit Committee and an action plan has been agreed.

7. Staff Governance Follow Up Report

7.1 As required by the national staff governance framework we have undertaken a review of NHSGG's staff governance arrangements, with the focus being on compliance with Audit Scotland's Self Assessment Tool. This included:

- An assessment of progress against the prior year's staff governance action plan;
- A review of how the Self Assessment process had been undertaken in the current year, using both qualitative and quantitative indicators; and
- Consideration of the reasonableness of the 2005/06 action plan.

7.2 On the basis of our findings at the time of the review which have been reported to and agreed with management, our assessment was as follows:

- Progress is being made against the actions from the prior year. Of the 113 actions agreed last year 36 were fully implemented, 65 were partly implemented or ongoing and 12 were not implemented;
- In general those actions taken were beginning to have the desired impacts. Individual Divisions are starting to adopt and implement NHS policies and procedures regarding Staff Governance. However on a Glasgow wide basis, there has been limited progress to take forward and embed Staff Governance on a single system basis. The robustness of NHSGG's self assessment process could have been improved, particularly with regard to taking a Glasgow wide approach.
- The updated action plan was produced within very short timescales which has limited the extent of involvement and formal approval. This may impact adversely upon its credibility and ownership. A more recent single-system action plan has been produced and this has now been taken forward by the Area Partnership Forum and a process has begun to ensure wider staff side input to the action plan.
- The specified statistics for the Self Assessment were not available for each individual Division. As a result of difficulties in producing the statistical information and the inconsistent approach across Divisions, it is not possible to state whether these have been produced in accordance with SEHD instructions.

ACTION POINT 9

8. Prevention and Detection of Fraud and Irregularities

Fraud and Corruption Reviews

- 8.1 As part of our rotational plan to review the key systems and methods for the prevention and detection of fraud and corruption we have conducted a review of the Board's overall arrangements and policies. No major issues of concern were identified although it is worth noting that many of these continue to operate on a divisional basis to divisional level requirements. Divisional arrangements should be amalgamated to a NHSGG wide common level at the soonest opportunity.

ACTION POINT 7

Fraud and Irregularities Guidance

- 8.2 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2004/05 and undertaken work accordingly. There were no matters for reporting here from this work.

Fraud Submission

- 8.3 A return has been made to Audit Scotland of all the reported frauds (18 in total) that have occurred within NHSGG during the year. In total 12 frauds were reported under £2,000 and 6 over £2,000. The largest individual fraud reported during the year was estimated at £15,000. We noted that actions have been taken by NHSGG to minimise the risk of further similar frauds occurring in the future and that this process was overseen by the appropriate Divisional Audit Committee.

9. Priorities and Risk Framework Report

Priorities and Risk Framework Report

- 9.1 To assess the effectiveness by which all NHS Scotland bodies are implementing required reforms, Audit Scotland have included within their 2004-07 Corporate Plan the requirement for 'the development of a 'Priorities and Risk Framework' for each sector which will identify key national initiatives within that sector and the main risks in their achievement'.
- 9.2 We consulted with numerous personnel and reviewed selected evidence within NHS Greater Glasgow (NHSGG) at both Board and Divisional level and assessed NHSGG's status in addressing the eight key areas of the Risks and Priorities Framework, namely:
- Governance
 - Service Sustainability
 - Financial Management
 - Performance Management
 - Pay Modernisation
 - Workforce Management
 - Joint Future
 - Information Management
- 9.3 The subsequent report (presented to the NHSGG Audit Committee on 13 June 2005) summarises our findings and assessment in relation to each of the eight key areas of the Priorities and Risks framework and, where relevant, highlighted key areas for further development. An action plan has been finalised by the NHSGG CMT to address these recommendations which has been considered at the Audit Committee. Key areas for development included within the recommendations can be summarised as follows:
- Governance structures and key staffing appointments under single system arrangements
 - Supporting and maintaining Non-Executive's awareness of major change projects
 - The findings from recent NHS Quality Improvement Scotland reviews
 - Board wide risk management arrangements and consistent control systems for finance, HR etc
 - The future development of the Acute Services Programme including better integration of workforce planning
 - Reporting to the Board and PRG under new single system arrangements and closer alignment between strategic objectives and the reporting of financial outturns
 - Performance management arrangements under single system working
 - NHSGG wide IT strategy, Disaster Recovery planning and Business Continuity planning

ACTION POINT 10

10. Acute Services Programme

- 10.1 The Acute Services Programme is scheduled to run until 2012 and will likely involve developments concerning the Beatson, Stobhill and Victoria (Ambulatory Care and Diagnostic Centres – ACADs), Southern General Hospital, Glasgow Royal Infirmary, Gartnavel Hospital and Children's Services.
- 10.2 During 2004/05 our review has been restricted to the Stobhill and Victoria ACADs developments.
- 10.3 Our review to date of the ACADs development has been previously reported to management on 8 August 2003, 17 October 2003, January 2004 and 29 June 2005.
- 10.4 In terms of value for money, key documents such as NHSGG's response to the Partnership UK report and the Ernst & Young working documents that back up NHSGG's VFM conclusions have recently been made available to us (end June 2005).
- 10.5 As this supporting information has only recently been made available to us and depending on the completeness of this information, and the availability of appropriate explanations, we intend reporting our findings to NHSGG's PRG during August 2005.
- 10.6 A wider status review of the full Acute Services Programme is scheduled for later this year.

11. Integration of NHS Argyll and Clyde

- 11.1 Recently and subsequent to the year end, the Minister for Health has announced the intention to dissolve NHS Argyll and Clyde (Statement to Parliament – 19 May 2005). Significant parts of NHS Argyll and Clyde may potentially be integrated into NHSGG from 1 April 2006.
- 11.2 A public consultation exercise concerning which parts may transfer to NHSGG and NHS Highland is anticipated to commence in early August 2005 for 3 months.
- 11.3 As reported in our previous reports, NHSGG is currently in the middle of a number of higher risk/profile change programmes including the ongoing move to single system working practices; the creation of one Acute Division and nine Community Health Partnerships; a Mental Health Partnership; a system wide Acute Services Programme; and a challenging financial recovery plan.
- 11.4 NHS Argyll and Clyde would bring with it a number of particular challenges in terms of service sustainability, financial imbalance and staff retention.
- 11.5 As a result, it is of high importance that NHSGG plans fully for the level of robust governance, programme control and people involvement (both public and staff) that will be necessary to integrate those parts of NHS Argyll and Clyde which may potentially transfer following public consultation.
- 11.6 At the appropriate stage, a detailed, clear and agreed programme of actions, including regular reporting to the Board, up to and after integration date will be a prerequisite.

ACTION POINT 11

12. Effective Financial Reporting - Additional VFM Study Spanning 2004/05 and 2005/06

- 12.1 We are undertaking a review of the effectiveness of financial reporting formats within NHS Greater Glasgow.
- 12.2 Our review includes working with senior Executives and Non-Executives as well as researching best practice in this area.
- 12.3 Initial reporting proformas for Board, Acute Division, CHP and Mental Health Partnership levels have been prepared and are being discussed and refined.
- 12.4 Workshops have taken place and are planned for the future.

ACTION POINT 1

Appendix 1: Action Plan

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 1	It has been agreed with Management that there is a need to improve financial reporting to the Board and develop revised reporting arrangements for the whole of NHSGG under the single system - incorporating the new Acute Division, CHP's, the Mental Health Partnership and the Acute Services Review.	Director of Finance	Throughout 2005/06
Action Point 2	Management need to identify and report further action to close the existing net deficit position forecast for 2005/06 of £10.4 million.	Chief Executive / Director of Finance	Throughout 2005/06
Action Point 3	NHSGG needs to complete all the matching of relevant jobs to the Agenda for Change framework at the earliest opportunity, as the original deadline date has not been achieved.	Director of Human Resources	Throughout 2005/06 (by March 2006)
Action Point 4	Improvements require to be made to supporting schedules and evidence to support the removal of inter-division trading from the consolidated annual accounts	Director of Finance	March 2006
Action Point 5	Due to the cashflow issues encountered in receiving payment for amounts due from the University of Glasgow, it is recommended that a more effective system of collection is re-introduced, possibly the standing order arrangement which existed previously.	Director of Finance	October 2005

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 6	<p>NHSGG needs to address those matters recommended for action in our previous audit reports, in particular;</p> <ul style="list-style-type: none"> • The need to develop, test and implement a NHSGG wide Business Continuity Plan and Disaster Recovery Plan • The need for improvements in control over stores, physical security and robustness of stock counts • The need to keep up to date and utilise authorised signatory lists, in particular for requisitions • The need to improve management and control around working time directive requirements • The need to put in place improved financial reporting at Board level, supported with standardised Divisional reports and including better links between activity and spend. • The establishment of a centrally held contract register. • The need to ensure that all Executive Directors are made fully aware of their personal objectives and that these objectives are approved before the start of each financial year. 	Contained in individual Divisional level and consolidated Board level Control Reports (see Appendix 4)	Various due dates
Action Point 7	The approval of a new organisational structure including CHPs, is a major milestone in the change process, and it is recommended that governance and control arrangements around this structure are developed and implemented as a matter of priority. This should include the replacement of Divisional level policies and procedures with NHSGG arrangements at the soonest opportunity.	Chief Executive	December 2005
Action Point 8	<p>Actions outlined in the report resulting from meetings with Non-Executive Members and Divisional Chairs are in progress. The Chairman and Chief Executive, should ensure these are implemented at the earliest opportunity, particularly in relation to:</p> <ul style="list-style-type: none"> • Board and Non-Executive roles and responsibilities • Governance, control and monitoring arrangements • The Board seminar programme 	Chair / Chief Executive	Throughout 2005/06
Action Point 9	As agreed, a more co-ordinated and efficient approach should be put in place for the achievement of the key recommendations resulting from our work on the NHSGG Staff Governance arrangements – as contained in our separate report on this matter.	Director of Human Resources	November 2005

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 10	<p>Management should ensure that the separate recommendations in relation to the Priorities and Risk Framework report are completed fully and in accordance with the agreed action plan, in particular to the following specific matters:</p> <ul style="list-style-type: none"> Governance structures and key staffing appointments under single system arrangements Supporting and maintaining Non-Executive's awareness of major change projects The findings from recent NHS Quality Improvement Scotland reviews Board wide risk management arrangements and consistent control systems for finance, HR etc The future development of the Acute Services Programme including better integration of workforce planning Reporting to the Board and PRG under new single system arrangements and closer alignment between strategic objectives and the reporting of financial outturns Performance management arrangements under single system working NHSGG wide IT strategy, Disaster Recovery planning and Business Continuity planning 	<p>Chief Executive Chief Executive / Director of Human Resources</p> <p>Chief Executive</p> <p>Medical Director Medical Director (Risk)</p> <p>Corporate Management Team (Consistent Systems)</p> <p>Director of Human Resources (Workforce Planning)</p> <p>Director of Finance</p> <p>Director of Planning and Community Care Director of Finance / Director of Public Health</p>	<p>December 2005 August 2005</p> <p>Throughout 2005/06</p> <p>September 2005 August 2005</p> <p>March 2006</p> <p>December 2005</p> <p>Throughout 2005/06 (by March 2006)</p> <p>November 2005</p> <p>December 2005</p>
Action Point 11	<p>Significant parts of NHS Argyll and Clyde may potentially be integrated into NHSGG from 1 April 2006.</p> <p>At the appropriate stage, a detailed, clear and agreed programme of actions, including regular reporting to the Board, up to and after the proposed integration date will be necessary.</p>	<p>Chief Executive</p>	<p>Throughout 2005/06 (depending on outcome of consultation)</p>

We recommend that the Corporate Management Team ensures delivery of this action plan and the Audit Committee/Board monitors prompt completion, together with those action plans contained in our previously submitted reports set out in Appendix 4.

Appendix 2: Responsibilities of External Audit and the Board and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Board and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Board regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Board and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Board or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Board. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Board and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Board to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Board to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Board has put in place to secure economy, efficiency and effectiveness in its use of resources.

We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Board during the year and as listed at **Appendix 4**.

Appendix 3: Audit Opinion

Independent Auditor's report to the members of NHS Greater Glasgow, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements which comprise the Operating Cost Statement, the Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and notes set out on pages 17 to 34 and 36 to 56 under the National Health Service (Scotland) Act 1978. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 21 to 25.

This report is made solely to the parties to whom it is addressed, and not to individual members, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Respective responsibilities of the Board Members, Accountable Officer and Auditors

As described on pages 9 and 13, the Board and the Accountable Officer of NHS Greater Glasgow are responsible for the preparation of the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. The Accountable Officer is responsible for ensuring the regularity of expenditure and income. The Board and Accountable Officer are also responsible for the preparation of the Directors' Report. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder and whether, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, NHS Greater Glasgow has not kept proper accounting records, or if we have not received all the information and explanations we required for our audit.

We review whether the Statement on pages 10 to 12 complies with the guidance issued by the Scottish Executive Health Department, "Corporate Governance: Statement on Internal Control". We report if, in our opinion, the statement does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the Statement covers all risks and controls, or form an opinion on the effectiveness of NHS Greater Glasgow's corporate governance procedures or its risk and control procedures.

Additionally, we read the Directors' Report published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of NHS Greater Glasgow and the Accountable Officer in the preparation of the financial statements and of whether the accounting policies are appropriate to NHS Greater Glasgow's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Financial Statements

In our opinion, the financial statements give a true and fair view of the state of affairs of the Board as at 31 March 2005 and of its net operating cost, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

Regularity

The Counter Fraud Services (CFS) of the National Support Services (NSS) performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for NHS Greater Glasgow for 2004/05 suggests that exemptions amounting to £6.1 million may have been given that were not eligible. As a result of the work by the CFS and the potential control deficiencies which may exist, the Board has outlined this matter concerning patient exemptions in its Statement of Internal Control and Directors' Report.

In our opinion and taking account of the above noted matter, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP
Glasgow
26 July 2005

Appendix 4: PwC Reports in 2004/05

	NGD	SGD	PCD	YORK	GGHB HQ	Consolidated NHSGG
Audit Plan	✓	✓	✓	✓	✓	✓
Follow Up Report	✓	✓	✓	✓	✓	✓
Internal Control report	✓	✓	✓	✓	✓	✓
Staff Governance						✓
Priorities and Risk Framework Report						✓
Non Executive Feedback Report						✓
Financial Reporting Formats						Over 2 years
Report/Presentation to Audit Committee	✓	✓	✓	✓		✓
Final Board Report						✓
Final Management Letter (if required)	✓	✓	✓	✓	✓	

Appendix 5: Key to commonly used acronyms

NHSGG	-	National Health Service Greater Glasgow
PRG	-	Performance Review Group (Sub Committee of the Board)
PCD	-	Primary Care Division
NGD	-	North Glasgow Division
SGD	-	South Glasgow Division
York	-	Yorkhill Division
PwC	-	PricewaterhouseCoopers LLP
CMT	-	Corporate Management Team
SEHD	-	Scottish Executive Health Department
FHS	-	Family Health Services
CHPs	-	Community Health Partnerships

Freedom of Information (Scotland) Act 2002

This report is intended solely for the information of the Members of the Board of NHS Greater Glasgow and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, it will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. NHS Greater Glasgow agrees to pay due regard to any representations which PwC may make in connection with such disclosure and NHS Greater Glasgow shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, NHS Greater Glasgow discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

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