

NHS Borders

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Board of NHS Borders and the Auditor General for Scotland
August 2023

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Key messages

2022/23 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are unmodified.
- 2 The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework. Expenditure and income were regular and in accordance with applicable enactments and guidance.
- 3 A number of adjustments have been made to the accounts due to errors identified during the audit process. This has included restatement of prior year figures. Management have recognised there are opportunities to enhance the annual accounts production process for future years.

Financial management and sustainability

- 4 NHS Borders reported outturn position for the year ended 31 March 2023 was underspend of £0.19 million against revenue resource targets. However, to deliver this position, the board required £11.7 million brokerage loans.
- 5 The Board continue to face significant financial challenges including: pay cost inflation; non-pay costs, including inflation related increases; service demand pressures across a disparate population; and, recruitment and retention challenges leading to use of agency and locum staff.
- 6 NHS Borders has developed a three-year financial plan for 2023/24 to 2025/26, which identifies a further £66 million in brokerage loans will be required, bringing the total to £86.6 million. The plan does not identify how the board will return to a break-even position and how this level of brokerage will be repaid in the future. NHS Borders is working with the Scottish Government to address these sustainability challenges. While there are areas where financial management needs to be improved, the Board recognise that more systematic change is required to develop a financially sustainable healthcare delivery model.

Vision, leadership and governance

- 7 NHS Borders has appropriate governance structures in place that support scrutiny of decisions made by the board.
- 8 Risk management arrangements have been revised in year to address challenges including introduction of a risk mitigation fund to provide short term financial support for very high rated risks. Work is still developing in this area.
- 9 Climate change action arrangements are still at an early stage and will be challenging to achieve.

Use of resources to improve outcomes

- 10 NHS Borders has suitable arrangements in place for timely and transparent performance reporting.
- 11 NHS Borders' performance against national standards has deteriorated with most KPIs classified as 'red'. Without transformation of services, it will be challenging to address the delays in patient care stemming from the pandemic. Given the financial challenges facing the board, it will be difficult to balance attaining financial sustainability whilst trying to improve service delivery.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of NHS Borders. The scope of the audit was set out in an Annual Audit Plan presented to the 27 March 2023 meeting of the Audit Committee. This annual audit report comprises:

- significant matters arising from an audit of NHS Borders' annual report and accounts.
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the board of NHS Borders and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I have been appointed by the Auditor General as auditor of NHS Borders for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank board members, audit committee members, executive directors, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. NHS Borders has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish

Ministers. NHS Borders is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. The responsibilities of the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Borders from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. As a result of the misstatements identified during our audit work we undertook additional audit procedures to obtain the assurances necessary for our audit opinion. As a result of the additional audit resource required, we have agreed with Management an increase of £5,000 to our planned audit fee. Our final audit fee was therefore £163,760. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. We add value to NHS Borders by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice.

1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Our audit opinions on the annual report and accounts are unmodified.

The financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework. Expenditure and income were regular and in accordance with applicable enactments and guidance.

A number of adjustments have been made to the accounts due to errors identified during the audit process. This has included restatement of prior year figures. Management have recognised there are opportunities to enhance the annual accounts production process for future years.

Audit opinions on the annual report and accounts are unmodified

11. The board approved the annual report and accounts for NHS Borders and its group for the year ended 31 March 2023 on 17 August 2023. The group comprises the Scottish Borders Integration Joint Board (IJB) and the endowment fund known as *The Difference*. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework

- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £5 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and no changes were required. It is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values for NHS Borders and its group

Materiality level	Amount	Group
Overall materiality	£5 million	£5.01million
Performance materiality	£3 million	£3 million
Reporting threshold	£0.25 million	£0.25 million

14. The overall materiality threshold for NHS Borders was set with reference to gross expenditure, adapted to remove the impact of the Integration Joint Board expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting our understanding of the entity and errors identified in the prior year audit.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

17. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Audit Response	Conclusion
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Detailed testing of journal entries with a focus on significant risk areas, including year-end and post-closing entries, where we consider the risk of management override of controls to be the greatest.</p>	<p>We undertook detailed substantive testing of journal entries, accruals and invoices. Our journal testing included a data analytics review to identify key risk factors. We reviewed journals and transactions for indications of management bias and override of controls and did not identify any issues in these areas. We considered the risk of fraud across our work and did not identify any fraud.</p> <p>Conclusion: We did not identify any incidents of management override of controls from our work.</p>

18. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The area of specific audit focus from the plan was:

- Valuations – a full revaluation of all properties as at 31 March 2023 was completed, including site visits. We reviewed the valuation arrangements and were satisfied that the process was accurate and that valuation assumptions applied were reasonable, ensuring that the valuations recognised in the accounts were free from material misstatement.

19. During Quarter 4 of 2022/23 an upgrade between version 5 and 6 of the National Single Instance eFinancials general ledger was completed. This resulted in a slowdown in the performance of the ledger and the associated application DB Capture (which scans and supports validation of invoices). We increased our expenditure testing in this quarter, and cut-off testing to address this issue, identified during the audit. No issues were identified from our testing (see paragraph [51.](#)).

20. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

Significant findings and key audit matters

21. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the board including our view about the qualitative aspects of the body’s accounting practices.

22. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

23. The significant findings and key audit matters are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit of the annual report and accounts

Issue	Resolution
<p>1. Deferred income</p> <p>£4 million of deferred income is included in the draft 2022/23 accounts, with £6.2 million in the comparative figures included the accounts.</p> <p>Deferred income included funding from the Scottish Government. This was to set aside (deferred) to complete projects which have been started but slipped in to 2023/24.</p> <p>Our audit testing identified that deferred income balance related to Scottish Government funding, of which there were no conditions attached that would restrict the funding being recognised in the period received. Therefore, in accordance with the FReM, the funding should be recognised immediately and not deferred.</p>	<p>Management has accepted this point and have reviewed the deferred income balances. An adjustment has been raised to remove one deferred funding balance relating to the PMO project. This has included the restatement of the prior year deferred income balance of £1.5 million, removal of income released during the year of £1.1 million and reducing the closing balance by £0.4 million. This has also resulted in adjustments to the prior year cash flow statement.</p> <p>We have raised an unadjusted misstatement for the remaining £3.9 million as at 31 March (Appendix 2). However, management is satisfied this misstatement is not material to the accounts and we concur with this conclusion.</p> <p>An exercise will be undertaken going forward to review SG funding to ensure funding is not deferred.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>
<p>2. Scottish Government (SG) creditor balance</p> <p>An SG creditor for £1.9 million was included in the 2021/22 annual accounts and brought forward into the 2022/23 accounts. On investigation, we identified that this should not have been a creditor. This was agreed with management.</p> <p>Management subsequently completed a prior year adjustment to update this which reduced prior year expenditure and creditors by £1.9 million. This has also resulted in adjustments to the prior year cash flow statement.</p>	<p>As this was not a material balance, our view is that this should have been adjusted for in the current year.</p> <p>Following discussion, management have chosen to leave this as a prior year adjustment, and we have noted this treatment.</p>

Source: Audit Scotland

There were one material and a number of non-material misstatements identified within the financial statements

24. The material misstatement in the accounts related to the prior year adjustment for deferred income which is detailed above in [Exhibit 3](#), with this being adjusted in the accounts. As noted in [Exhibit 3](#) there is also a non-adjusted balance of £3.9 million.

25. There were several corrected non-material misstatements above the reporting threshold:

- Internal recharges – the NHS Manual identifies that internal recharges should not be included in income. As part of our audit testing, we identified that estates recharges had not been eliminated from the accounts. This was agreed with management who have adjusted for this. This reduced income and expenditure in year by £0.86 million.
- Estates accrual – an estates accrual had been brought forward from a previous year and this accrual was no longer needed. This was agreed with management who have adjusted for this. This reduced expenditure and accruals in year by £0.31 million.
- Brought forward accrual – an accrual had been brought forward from a previous year and this accrual was no longer needed. This was agreed with management who have adjusted for this. This reduced expenditure and accruals in year by £0.36 million.
- Untaken leave accrual – the 2022/23 untaken leave accrual should be calculated using 2023/24 pay rates. This was agreed with management who have adjusted for this. This increased income and expenditure in year by £0.45 million.
- FHS – we noted that part of the accruals working paper was greater than the balance included in the accounts. This balance was still to be accrued and the accounts were updated to reflect this. This was agreed with management who have adjusted for this. This increased expenditure and accruals in year by £0.80 million.
- Right of use assets – the introduction of IFRS 16 Leases legislation in the public sector require the need for right of use assets to be include for the Huntlyburn Terrace residences and recreation centre. The right of use assets and liabilities at year end have increased by £1.57 million and £1.41 million respectively with a net increase in expenditure of £0.11 million to reflect the updated depreciation costs in year. The in year repayment of lease costs which previously formed part of core

expenditure is now set off against the liability, with the expense in year now relating to depreciation of the asset (non-core expenditure). Accounting policies relating to this have also been revised in the accounts.

26. In addition to the above, there was an adjustment of £8.85 million in respect of NHS Borders' share of the Integration Joint Board (IJB) deficit for the year, increasing the consolidated net expenditure figure and reducing consolidated reserves by the same amount. This information was not available at the time of preparing the unaudited accounts.

27. Other than the corrected material misstatement detailed as a significant finding in [Exhibit 3](#) and the points detailed above, our audit identified no misstatements above our reporting threshold.

28. There were no further non-trivial misstatements which were not corrected by management in the audited accounts. A small number of trivial errors identified in the accounts were also updated by management. These were communicated by management to the Audit and Risk Committee as part of the governance process relating to the annual report and accounts. We considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material. Further detail of the uncorrected misstatement is included in [Appendix 2](#).

The unaudited annual report and accounts were received in line with the agreed timetable, with our work identifying there is a need for improvements in working papers

29. The unaudited annual report and accounts were received in line with our agreed audit timetable on 9 May 2023.

30. This did not include the group information for the Scottish Borders Integration Joint Board (IJB) which was received by the board on 8 June 2023. A revised version of IJB figures was provided on 20 June 2023. This delay with the receipt of third-party information impacted on the consolidated accounts. This meant our planned work on group accounts could not take place until this had been received and subsequently included in the group accounts.

31. We noted that for some account areas there was not a clear trail of evidence from the accounts to the associated working papers. For sampling items, particularly balance sheet items, the initial working papers did not provide sufficient detail to pick samples, and further breakdowns of accounts codes were required before samples could be selected. This meant that the audit was less efficient and created additional work for both finance staff and the audit team to communicate more in these areas. Learning from this, we will provide a checklist of working papers, which will include listings at a cost centre basis which we will need for the start of the audit to support both teams.

32. We identified some areas where we have requested that there be some further work. Within the receivables and payables working papers there were many small credit balances with receivables and debit balances within payables. We have requested this is reviewed during 2023/24 to help with cleansing the ledger.

33. There has been a number of challenges identified with the annual report and accounts during the audit. This has resulted in delays to the audit process and has also resulted in increased audit work. Management has recognised the resource challenges during the audit. We will work with management to identify lessons learned from the process to take forward into the 2023/24 audit.

Recommendation 2

Working papers supporting figures in the accounts can be improved to show a clearer trail of evidence.

There is scope for cleansing of data in the ledger and supporting documentation to ensure these balances remain appropriate and there are no errors.

Review of operating procedures where weaknesses have been identified in the past will help support this process.

[Appendix 1](#)

Limited progress was made on prior year recommendations

34. NHS Borders has made limited progress in implementing the audit recommendations identified by the previous Audit Scotland team, NHS Borders' previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

35. NHS Borders reviewed the outstanding recommendations and reported on these to the June 2023 Audit and Risk Committee, noting that many remain in progress. Several points carried forward relate to financial sustainability with the issues understood by NHS Borders and whilst work is ongoing, progress to return to a sustainable position is challenging. This is a recognised area of high risk for NHS Borders, and we have included a new recommendation which supersedes those brought forward.

36. Capacity issues have prevented the updating of procedure notes to support financial controls issues identified in previous years, and progress on payables issues have been partly addressed. Our work in year has identified areas for further focus and as noted above, where working papers can be improved. This has made the audit less efficient, and we will work with finance colleagues to take forward learnings from this year's audit.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

NHS Borders reported outturn position for the year ended 31 March 2023 was underspend of £0.19 million against revenue resource targets. However, to deliver this position, the board required £11.7 million brokerage loans.

The Board continue to face significant financial challenges including: pay cost inflation; non-pay costs, including inflation related increases; service demand across a disparate population; continued staff absence; and, recruitment challenges leading to use of agency and locum staff.

NHS Borders required £11.7 million of brokerage loans at year end to operate within its revised Revenue Resource Limit (RRL) to £288.477million

37. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within.

38. NHS Borders applied for £11.7 million of brokerage loans from the SGHSCD at year end, having projected this overspend throughout 2022/23. This was approved by SGHSCD. There were also some late small changes to the final funding letter from SGHSCD to increase it by almost £1 million. Therefore, the annual resource limit was increased from £275.798 million to £288.477 million at year end. The board's outturn is £288.290 million resulting in an underspend of £0.187 million. This is shown in [Exhibit 4](#).

Exhibit 4 Performance against resource limits in 2022/23

Performance against resource limits set by SGHSCD	Resource Limit £m	Brokerage £m	Final Resource Limit £m	Actual £m	Overspend £m
Core revenue resource limit	276.326	11.700	288.477	288.290	0.187
Non-core revenue resource limit	5.823	-	6.313	6.313	0
Total revenue resource limit	282.149	11.700	294.790	294.603	0.187
Core capital resource limit	4.058	-	4.058	4.025	0.33
Total capital resource limit	4.058	-	4.058	4.025	0.33
Cash requirement	319.218	-	-	319.218	0

Source: NHS Borders Annual Report and Accounts 2022/23

2022/23 budget processes followed appropriate governance processes but included a £12.2 million deficit

39. In April 2022, NHS Borders' one-year financial plan for 2022/23 estimated core revenue funding of £285.9 million from SGHSCD and net expenditure would total £309.6 million. This resulted in a financial gap of £23.7m before accounting for savings of £11.5 million, and an in-year deficit of £12.2 million as part of the 2022/23 budget setting process. This position indicated a worsening position than 2021/22 where NHS Borders was able to achieve a breakeven position with support from SGHSCD via Covid-19 additional allocations.

40. The key areas of financial pressures identified in the financial plan included the underlying deficit brought forward from previous years, prescribing costs, pay terms and conditions and non-pay inflationary pressures.

41. The board's agreed recurring savings target was £5 million, approximately 2% of expenditure, with £6.5 million of non-recurring savings to be made.

42. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on NHS Borders' financial position and demonstrated performance against the deficit budget throughout the year.

43. The budget monitoring reports presented to each Board meeting clearly show performance against budget for each business unit and recurring savings targets but would benefit from providing more detail on the extent of the board's reliance on non-recurring savings. Overall, the content and format of the reports allow members to perform their scrutiny role. These financial performance reports should also be shared and discussed at Audit and Risk Committee meetings to support greater oversight and scrutiny of the financial performance in year which flows into the annual report and accounts.

£10 million of savings were achieved, but only £2.4 million on a recurring basis

44. £5 million recurring savings was included in the financial the plan. This was 1% of core expenditure for each business unit, with the remainder of the savings from wider board initiatives. In total £2.37 million recurring saving so less than 50% of the original £5 million was achieved. There was £1.05 million of non-recurring savings from business units, and £6.6 million of non-recurring board wide savings. Therefore, a total of just over £10 million of savings were achieved.

45. Some of these savings in year have related to vacancies not being filled and therefore these are unplanned savings and can have a consequential impact on operational performance delivery, and in Section 5 performance against targets is reported. Non-recurrent savings of £2.5 million came from the IJB using reserves to fund part of the services in year and was in line with the 2022/23 financial plan, however use of IJB reserves going forward is limited.

46. The prevalence of non-recurring savings increase financial pressures as these are one-offs and not those which will support savings in future years. Even increasing levels of recurring savings of a greater magnitude would not be sufficient to help support medium term financial sustainability (see paragraph [66.](#)).

Financial controls operated during the year. However, there are opportunities to enhance these arrangements

47. From our review of the design and implementation of systems of internal control relevant to our audit approach and our walkthroughs of key controls to support the financial statements audit, we did not identify any internal control weaknesses which could affect NHS Borders' ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

48. We identified some weaknesses in financial management in areas including deferred income and recharges where the correct accounting treatment had not been adopted. As detailed in Section 1, management has agreed these issues, and whilst these have been adjusted in the annual report and accounts,

updating procedures to ensure these do not reoccur will support financial control arrangements.

49. In our prior year audit report, we had recommended areas for improvements in controls and the Audit Committee paper of June 2023 identified that this had not progressed in line with plans due to capacity issues. This is reflected in [Appendix 1](#), recommendation 2.

50. Internal audit completed work on financial controls and gave partial assurance with areas for improvement. There were medium recommendations identified for improvements in debt management and annual training for budget holders. We have considered these findings and are satisfied that these do not impact on our audit opinions.

Service auditor reports provided unmodified opinions but there were control assurance issues identified

51. A part of our overall audit approach we rely on assurances from key service providers. This includes:

- NHS National Services Scotland (NSS) provision of primary care payments and the national IT contract
- NHS Ayrshire & Arran provision of the National Single Instance eFinancials service

52. We considered the evidence from service auditor's assurance reports and other auditor assurances for 2022/23 and identified the issues which are detailed below.

- **The National Single Instance eFinancials service report:** The service auditor reported that *“the eFinancials system was updated from version 5 to version 6 between Friday 20th and Monday 23rd January 2023, issues have emerged when the system went live and multiple users were accessing the system concurrently. Following the migration to eFin v6, the system became unstable when a number of users access DBCapture concurrently... (with)... significant disruption to accounts payable service and as a result there had been delays in paying suppliers and document images are not saved into the Finance System when invoices are paid through this method. The level of disruption experienced has varied across Boards, partly due to when the decision was taken locally to revert to paying invoices manually”*. At NHS Borders this did not cause significant delays to the payment of creditors as the board processed authorised invoices in advance of scanned images being available. As noted in Section 1, we planned and performed additional audit procedures to review creditors and no issues were identified relating to this system issue.

- **The National Single Instance eFinancials service report:** The service auditor acknowledged a gap in the current service audit arrangements at the body. *“Atos provides national IT services to the NHS in Scotland and hosts the servers upon which the financial ledger sits. Therefore, IT general controls, controls over the server, backup of financial ledger data and disaster recovery arrangements are outside the scope of the service report”*. NHS NSS confirmed that specific assurance for general IT controls relates to payroll and practitioner services and not to the general ledger. This issue did not lead to an audit risk for the 2022/23 annual report and accounts, however we view this as a Scotland-wide governance issue which the wider NHS is seeking to resolve.

53. A summary of the outcomes of the service audit reports were shared with the Audit and Risk Committee in June 2023 and these reports have been referred to in the Governance Statement included within NHS Borders’ 2022/23 annual report and accounts.

Information and management technology policies and procedures require refreshing

54. In our 2021/22 Annual Audit Report, it was identified that following a review of IM&T (Information, Management and Technology) policies and procedures, that a number of documents required refreshing and that a consistent approach to document management and control is not in place. Whilst work is ongoing in this area, we noted that within the target operating model, there are vacancies which means the capacity to carry out this work is affected. We recognise that IM&T roles more widely can attract a premium due to the specific skills in these areas and therefore it can be challenging to recruit into these roles.

55. The IM&T team is working to develop an infrastructure and application roadmap for the next year, which is set to inform a detailed digital and information strategy, which is yet to be drafted. We noted from our work that there were a number of areas where the documentation can be improved which included infrastructure architecture and testing to have a clearer evidence trail of activities/actions carried out and subsequent findings.

56. We recognise that there has been progress in disaster recovery and business continuity with testing of specific applications having taken place in year, but again documentation of this testing could be improved.

Recommendation 3

IM&T policies should be refreshed on a timeous basis, with a clear schedule introduced to help manage this process. Improved documentation, including for testing and infrastructure architecture, will ensure a clearer trail of activities and

actions carried out, findings identified and provide more clarity about where further work is required.

[Appendix 1](#)

Internal audit's annual opinion is partial assurance with improvement required

57. NHS Borders internal audit function is carried out by Grant Thornton LLP. Internal audit has completed its 2022/23 audit work plan and presented its Annual Internal Audit Report, including the internal audit annual opinion to the June 2023 Audit Committee. The overall opinion for the period 1 April 2022 to 31 March 2023 based on the scope of reviews and sample testing carried out that the opinion is of "partial assurance with improvement required" on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

58. Internal Audit's 2022/23 programme has identified areas of significant weaknesses and 'red' rated risks across four 2022/23 audits. All the recommendations associated with these red risks, and all other risks have been accepted in full by NHS Borders with plans identified to address these risks. These have been debated by the Audit Committee in year and will now be monitored by the committee during 2023/24.

- Compliance with Scottish Health Technical memorandum 03-01 Part B - Ventilation Systems – no assurance provided: 5 red risks. This focused on compliance with the named technical memorandum at Borders General Hospital.
- Property transactions – no assurance provided: 4 red risks. This focused on compliance with the NHS Scotland Property Transactions Handbook and reviewed low value, short term leases in 2021/22 and 2022/23.
- Health and Safety Risk Management – overall opinion of partial assurance with improvement required: 2 red risks. This focused on the control measures in place around health and safety risk assessments.
- Health Inequalities – overall opinion of partial assurance with improvement required: 2 red risks. This focused on the control measures in place around strategy, impact assessments and reporting.

59. These risks have been appropriately disclosed in the governance statement in the annual report and accounts. We have noted this reporting and that internal audit included in its annual report that the two reports with no assurance relate to discrete areas for the health board. We are satisfied based on the areas which have red risks, and the arrangements in place around the

recommendations, that these have not impacted on our audit approach or opinion on the annual report and accounts in Section 1.

Standards of conduct for prevention and detection of fraud and error are appropriate

60. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

61. NHS Borders has adequate arrangements in place to prevent and detect fraud or other irregularities. A range of established procedures are in place and have been designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect of fraud and error. These include codes of conduct for members and officers, a counter fraud policy and action plan. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current, with the Code of Corporate Governance which contains the counter fraud policy being revised in early 2023/24.

62. There is participation in the work of the NHS wide counter fraud services and there has been good participation to date in the National Fraud Initiative (NFI). This is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.

63. We have concluded that NHS Borders has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

NHS Borders has developed a three-year financial plan for 2023/24 to 2025/26, which identifies a further £66 million in brokerage loans will be required, bringing the total to £86.6 million. The plan does not identify how the board will return to a break-even position and how this level of brokerage will be repaid in the future. NHS Borders is working with the Scottish Government to address these sustainability challenges. There are areas financial management needs to be improved. Further, given the level of savings required, and forecast cumulative brokerage loans that the board is expected to receive, systematic change is required to develop a financially sustainable healthcare delivery model.

Audit work has addressed the wider scope risk identified in our Annual Audit Plan

64. [Exhibit 5](#) sets out the wider scope risk relating to Financial Sustainability we identified in our 2022/23 audit. It summarises the audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 5

Risk identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
Financial Sustainability NHS Borders budget for 2022/23 identified a deficit of £12.2m. Brokerage from the Scottish Government has been agreed for 2022/23.	<ul style="list-style-type: none"> Monitor the board's financial position and plans, including underlying savings plans, as reported to the board / relevant committees. 	We monitored the financial position throughout the year through review of papers and regular communication with the finance team.

Audit risk	Audit Response	Conclusion
<p>NHS Borders had £8.3 million brokerage before the Covid-19 pandemic which has not yet been repaid to the Scottish Government.</p> <p>In addition, the Board anticipates that further brokerage support will be required in the coming years as the Board, like many NHS boards across Scotland, faces significant financial challenges through rising cost and demand pressures not matched by increases in funding.</p> <p>The recovery plan identifies that brokerage will be needed for the next 3 years, totalling £70.3 million. This position is regularly discussed with the Scottish Government.</p> <p>The Board has also experienced challenges in meeting performance targets. With financial pressures, the Board faces significant challenges in maintaining or improving service delivery in a financially sustainable way.</p>	<ul style="list-style-type: none"> • Assess the measures put in place by the board to establish grip and control of both financial and non-financial performance. • Review any assessment of the board's future financial position (including outputs from the financial improvement programme and recovery plans) • Discussions with senior finance staff on financial position. • Assess progress made by NHS Borders in implementing sustainable transformational change to address financial targets while meeting performance targets. 	<p>The year end position identified a deficit of £11.7m for which the Scottish Government provided brokerage. Savings in year were mainly made on a non-recurring basis.</p> <p>The medium-term financial plan now estimates brokerage of £66.6m over the next 3 years.</p> <p>The Scottish Government is working with NHS Borders to develop the financial plan to help return to a sustainable position.</p> <p>Conclusion: NHS Borders faces significant financial challenges. With brokerage funding required for at least the next 3 financial years, systematic change is required to develop a financially sustainable operating model. Working with the Scottish Government and other key partners, including Borders Council and the Borders IJB will be critical in developing a financially sustainable model of care for the region.</p> <p>Appendix 1</p> <p>Recommendation 4</p>

The response to Covid-19 and a range of emerging financial pressures have exacerbated the financial position of the NHS in Scotland

65. As highlighted in Audit Scotland's [NHS in Scotland 2022](#) report, the financial position is concerning across the health sector. Despite growth in health funding

a range of financial pressures are presenting a significant challenge for all health boards. These include:

- inflation;
- recurring pay pressures;
- ongoing Covid-19 related costs;
- rising energy costs; and,
- a growing capital maintenance backlog.

NHS Borders has prepared a medium-term financial plan, but it does not meet requirements to break-even over the three-year period

66. The Scottish Government previously provided £8.3 million of additional financial support to NHS Borders in 2019/20 in the form of brokerage loans which was due to be repaid in future years. The Scottish Government suspended any scheduled repayments of additional support funding during the pandemic, and NHS Borders have carried forward this loan into 2022/23. The additional brokerage received in 2022/23 of £11.7 million means that £20 million requires to be repaid to the Scottish Government.

67. Scottish Government guidance, including the Medium-Term Financial Framework, requires that health boards have a three-year medium-term revenue plan and a five-year capital plan. NHS Borders 2023/24 - 2025/26 financial plan was shared with the Scottish Government in February 2023, and it identifies a recurring revenue deficit over the three years. This identifies that approximately £66 million of further brokerage loans would be required from the Scottish Government over the three-year period. Total cumulative brokerage by the end of 2025/26 would be £86.6 million.

68. The forecast includes additional costs relating to Covid-19 and costs related to recovering and addressing service backlogs in other areas, to help return performance to pre pandemic levels. Forecasts in the financial plan are based on several assumptions including growth in prescribing costs in hospitals and primary care, inflationary costs particularly for energy, allocation uplifts to address pay awards greater than 2%.

69. Recurring savings of 2% in 2023/24 and 3% in the following two years, plus 1% of non-recurring savings each year are also included in the plan. Although these savings targets have been identified, the underlying plans for these recurring savings are only partially identified.

70. Savings alone are not sufficient to return NHS Borders to a financially sustainable position, with the savings targets addressing approximately one

third of the deficit, and significantly less than the expected brokerage loans requirement of over £20 million each year.

71. Due to the recurring revenue deficit, NHS Borders was required to prepare a financial recovery plan which should detail the actions to address this recurring deficit and bring the board back towards a breakeven position. NHS Borders shared this with the Scottish Government in March, but it did not fully meet the requirements as it currently does not detail actions which will reduce the deficit and return to a sustainable position.

72. As a result of the financial challenges faced by NHS Borders, the Scottish Government is providing enhanced support to the board. This process started over summer and is still ongoing. It introduced a four stage process to support NHS Borders which includes:

- Diagnosis – identify the root causes of the financial challenges
- Planning – review the financial management approach to identify gaps and any other issues identified in the planning stage
- Delivery – support the preparation of a financial recovery plan to return to a sustainable position
- Implementation – monitor the implementation of the plan.

73. NHS Borders will need to continue to engage with the Scottish Government to ensure that brokerage support will be provided, because the current plans for 2023/24 and following years indicate levels of spend for which there is no guaranteed funding.

74. The levels of brokerage indicated in the financial plan will continue to place a strain on the future operation of the health board. Even if NHS Borders outlines a route to a sustainable financial position, brokerage in excess of £85 million would need to be repaid. Repaying brokerage even at £10 million per year over a number of years will also place pressure on delivering a sustainable model for the longer term.

Slow progress is being made against transformational and financial efficiency plans

75. Prior to the pandemic, in March 2020, NHS Borders was reporting a deficit of £13.1 million, and already had brokerage loans of £8.3 million which required to be repaid to SGHSCD. NHS Borders suspended its Financial Turnaround programme in March 2020 to allow resources to be deployed to support the Covid-19 response. This resulted in the £15.9 million savings which were identified as being required in March 2020 not being achieved. The impact of the pandemic has created more pressures on the board including, increased

performance backlogs and waits for treatment (see Section 5) and workforce shortages and pressures.

76. NHS Borders faces several areas of financial pressures including:

- Inflation impacting both staff and non-pay expenditure
- Levels of service demand across a disparate population
- The level of fixed costs for the health board
- Recruitment and retention challenges which result in increased reliance on agency and locum costs, alongside staff absences.

77. These collectively have made it challenging for NHS Borders to address the financial pressures. In addition, as detailed in section 2, whilst some savings are being achieved these are predominantly on a non-recurring basis.

78. In summer 2022 this project was re-established as the Financial Improvement Programme (FIP). Each business unit attends individual monthly meetings to review progress against the identification and delivery of planned savings. This reports to the Quality and Sustainability Board, which in turn reports to the standing committee of the board, the Resources and Performance Committee. Deloitte was commissioned to carry out benchmarking work using publicly available datasets to identify areas where NHS Borders is an outlier or where there are variances from other boards which may identify areas to support the FIP. NHS Borders should review this information to identify areas where additional savings or improvements in performance can be made.

79. Savings and grip and control over in year finances will not deliver sustainability and therefore transformation of service delivery will be required to return the board to a financially balanced position. Work in this area is being discussed but so far decisions on making amendments to the service delivery model and to service provisions are not yet ready to be taken by the board. Further work in this area still has to be developed before the board can fully engage and make these challenging decisions. We will continue to follow developments in this area.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

NHS Borders has appropriate governance structures in place that support scrutiny of decisions made by the board.

Risk management arrangements have been revised in year to address challenges including introduction of a risk mitigation fund to provide short term financial support for very high rated risks. Work is still developing in this area.

Climate change action arrangements are still at an early stage and will be challenging to achieve.

NHS Borders has a vision which has linkages to the 2022/23 Annual Delivery Plan

80. NHS Borders has a vision supported by three organisation objectives which cover the broad themes of reducing health inequalities, providing quality sustainable services, and promoting excellence in organisation behaviour.

81. This links to the annual delivery plan (ADP) for 2022/23 which notes the themes of the objectives included in the desire to remobilise services following the pandemic and notes the risks associated with financial challenges. Going forward, it would be useful to see the organisational objectives more explicitly linked to planned work.

Governance arrangements are appropriate

82. NHS Borders' governance arrangements have been set out in the Governance Statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

83. The Board is supported by standing committees, with the minutes of these committees presented to the Board as standard agenda items. In addition, minutes from meetings of Scottish Borders IJB are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees, with some members also represented on the IJB Board.

84. Board members provide appropriate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. There has been no significant change to the Board's governance arrangements during 2022/23.

85. Through our attendance at the Audit Committee (Audit and Risk Committee from June 2023) meetings, we concluded that committee papers were well prepared (and in sufficient time in advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the committee to exercise effective scrutiny.

86. The NHS Scotland Corporate Governance Blueprint says that NHS boards should annually assess the effectiveness of the corporate governance system, conducting a self-assessment to review progress, and develop an action plan, identifying any new and emerging issues or concerns.

87. The Board's Governance Framework is reviewed on an annual basis, and this is used to support the disclosures in the governance statement. A report was shared with the Audit and Risk Committee in June 2023. In addition, the Code of Corporate Governance is subject to revision every three years. This will take place during 2023/24 and will initially focus on the scheme of delegation and standing financial instruction.

88. The Blueprint for Good Governance (version 2) was published by the Scottish Government in December 2022, and was considered by both the Audit Committee and Board during 2022/23. This guidance requires there to be an Audit and Risk Committee and therefore the terms of the reference for the current Audit Committee will require to be revised to ensure they encompass the requirements detailed in the guidance.

89. A recent self-assessment by the Audit and Risk Committee identified inconsistencies between current arrangements and the Blueprint for Good Governance. Whilst management is satisfied that current arrangements remain appropriate, there are opportunities to enhance this by regularly reporting

financial information to the committee to support financial monitoring and scrutiny of the annual report and accounts.

Risk arrangements have been revised in year and we will continue to monitor these as the arrangements are embedding

90. Risk management governance arrangements had been reviewed in year and the risk management group had been amalgamated with the Operational Management Group with an aim of ensuring building risk management philosophies into a risk based approach to decision making, and to streamline the number of meetings senior managers are required to attend. A risk mitigation fund was also started in 2022/23 where non-recurring funding is available to help mitigate very high risks in the short term. This continues to be area where arrangements are being embedded, and we will monitor progress.

91. Quarterly reports on risk are now provided to the Audit Committee to give risk information on a more timely basis. This gives sufficient details on the strategic and operational risk registers held by the board and allows scrutiny by members. In the draft Quarter 4 report it was noted that the KPIs for risk management had not all been met. This related to not meeting the timescales for review of risks, with a proportion of risks out with the planned review date.

92. This group will be supplemented by an environmental risk oversight group to look at environmental risks including health and safety, and healthcare acquired infections. Following on from the no assurance report from internal audit on ventilation, actions have been put in place to recruit a team to manage environmental and estates risk. Due to the age and condition of the estate, and the levels of backlog maintenance, these actions to increase focus in this area of risk will help address the risks raised by internal audit, and further permit an understanding of the baseline level of the estate. This is likely to raise further work required for the estates and increase the need for financial commitments in this area but will help prioritise the actions needed.

Climate change arrangements are being progressed

93. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

94. NHS Borders has a target of being net zero by 2040 as reported in its [Annual Climate Emergency and Sustainability Report 2021/22](#). NHS Scotland has developed a National Sustainability Assessment Tool which all health boards use on an annual basis to measure their progress across sixteen different areas of sustainability. In the 2021/22 report, NHS Borders scored 127 out of a possible 840, 15%. A score of 40% is considered bronze level and NHS

Borders plans to achieve bronze level by the end of 2023/24 at the latest. In addition, the NHS Borders Climate Change Action Plan is currently being prepared and is expected to be approved by the board in June 2023.

95. NHS Borders has not yet identified any areas specifically impacted by climate change in the 2022/23 financial statements, but more widely in the annual report and accounts has climate change as a high level risk in the risk register. Mitigations in the detailed risk register includes a review of the fleet used by NHS Borders, and as work progresses, we may see obsolescence of current vehicles as they are no longer compatible with the objective of greening the fleet.

96. It will be difficult for the Board to reach these planned targets given the need for significant investment in capital infrastructure. Given the challenging financial position the board faces and the required investment to address climate actions, it will be hard to dedicate funds to climate change actions given the pressures in other areas of the board.

97. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

NHS Borders' performance against national standards has deteriorated with most KPIs classified as 'red'. Without transformation of services, it will be challenging to address the delays in patient care stemming from the pandemic. Given the financial challenges facing the board, it will be difficult to balance attaining financial sustainability whilst trying to improve service delivery.

NHS Borders has appropriate arrangements for performance monitoring and reporting.

NHS Borders annual delivery plan has a series of actions designed to address backlogs caused by the Covid-19 pandemic and restore performance levels

98. The Scottish Government requested NHS boards to produce and regularly revise plans outlining plans for the delivery of health services. The Annual Delivery Plan (ADP) for 2022/23 was focused on a limited set of Scottish Government priorities to help support the system and workforce recover from the most serious challenges of the pandemic. The ADP was for one year and was to be aligned with financial and workforce plans.

99. NHS Borders has included a series of planned priorities in the ADP to address backlog/waiting times caused by Covid-19 in line with the Scottish Government priorities. These include:

- Recruitment and retention: the 2022-2025 workforce strategy encompasses the health and social care partnership, published in year.

- Recovery and protecting planned care, including returning to and moving above 2019/20 baseline activities.
- Supporting and improving social care, including work to strengthen collaboration between Social Care and Primary Care.
- Plans to support the workforce who are facing increased pressures including resilience training and occupational health support.

100. The ADP acknowledges that there is a need to redesign and transform services to address the increased waiting times and the backlog of patients awaiting diagnosis and treatments post the pandemic. Work in this area should be aligned to the work on delivering financial sustainability as transforming services in the longer term will help support the aims of sustainability. It will be challenging in the remobilisation and recovery phase as demand for services will remain high as patients may present with more complex needs given the delays in receiving treatment resulting from the pandemic.

NHS Borders has appropriate arrangements for performance monitoring and reporting

101. Performance reports have been considered by the Resource and Performance Committee regularly throughout 2022/23 and then publicly reported via the Board papers available on the NHS Borders website (via bi-monthly Board papers). The information is provided in a scorecard format with information in tables, graphs and supporting narrative to explain the performance and the data. In addition to just explain what the data says, for hot topics on waiting times, access to mental health services and delayed discharges there is also information on why there are challenges and what is also being done to address this issue. For the previously agreed national standards there is a scorecard overview using RAG status. Currently most of these measures are rated 'red' which means out with the standard by over 11%.

Service performance against national waiting time standards is reported as being behind targets

102. The 2022/23 annual report and accounts include the position at the end of March 2023 on the board's performance against its national waiting time standards. Whilst cancer waiting times are meeting the national targets, new outpatient and inpatient waiting times are both classed as 'red' which means significantly out with the expected standard.


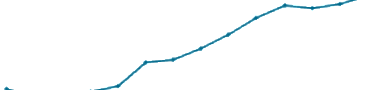
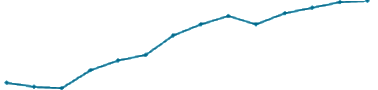



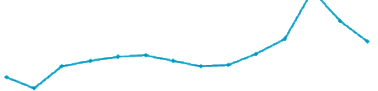


103. Performance is considered at each board meeting, and reporting acknowledges the challenges facing NHS Borders. Following the Scottish Government move towards an annual delivery plan, there has been a move from the remobilisation plans in 2022/23.

104. While these only form part of the key performance indicators for the board performance, not the board's only focus for performance monitoring, these provide context for the scale of the impact of the pandemic of the delivery of health services. [Exhibit 6](#) demonstrates how activity and waiting times have been impacted by Covid-19. Using Public Health statistics this covers data from December 2019 to December 2022 and illustrates the increases in waiting times and the increase in demand, particularly throughout 2022. Outpatient appointments have increased steadily since the worst of the pandemic but have not yet returned to pre-pandemic levels.

105. [Exhibit 7](#) provides a comparison of current waiting times compared to prior years. Performance against cancer targets remains high and above targets and has done so throughout the pandemic. Pressures on new outpatient waiting times and treatment guarantees are still visible with performance at March 2023 comparable with the March 2022 but still significantly below pre-pandemic figures. Addressing this backlog, against the backdrop of financial challenge, demonstrates the need to transform services to support both patients and longer term sustainability.

Exhibit 6

Trends in demand and activity per acute services

Demand		% change
	Quarterly Dec 2019 to March 2023	
Number waiting for diagnostic tests	1,205  2,888	139.7%
	Quarterly Dec 2019 to March 2023	
Number of patients waiting for an inpatient or day case admission	1,313  2,622	99.7%
	Quarterly Dec 2019 to March 2023	
Number of patients waiting for a new outpatient appointment	4,051  11,393	181.2%
Activity		
	Quarterly Dec 2019 to March 2023	
Number of scheduled elective operations in theatre system	393  272	-30.8%
	Quarterly Dec 2019 to March 2023	
Number of inpatient and day case admissions	1,195  587	-50.9%
	Quarterly Dec 2019 to March 2023	
Number of new outpatient appointments	8,076  5,806	-28.1%
Length of waits		
	Quarterly Dec 2019 to March 2023	
Number waiting longer than 6 weeks for diagnostic tests	253  865	241.9%
	Quarterly Dec 2019 to March 2023	
Number of patients waiting longer than 12 weeks for an inpatient or day case admission	61  1,925	3055.7%
	Quarterly Dec 2019 to March 2023	
Number of patients waiting longer than 12 weeks for a new outpatient appointment	185  7,189	3785.9%

Source: Public Health Scotland

Exhibit 7

Performance against key waiting time standards

Target/standard	Performance at March 2020	Performance at March 2021	Performance at March 2022	Performance at March 2023 ¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	95%	95.6%	95.5%	95.7%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	90%	74.4%	65.6%	64.8%
Patient Treatment Time Guarantee (TTG) Number of inpatients or day case that were not seen within 12 weeks	62	81	200	156
New outpatients waiting more than 12 weeks Number of patients on the waiting list at month end who have been waiting more than 12 weeks since referral at month end	287	3,489	5,177	7,198
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours	85.5%	81.7%	62%	58.8%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	100%	97.5%	100%	100%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	93%	100%	100%	100%

NHS Borders has an appropriate best value framework

106. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

107. NHS Borders reports an annual best value statement outlining the aims and duties for the board. It notes that best value about creating an effective organisational context from which NHS Borders can deliver its key outcomes. NHS Borders recognises that Best Value is simply a codification of good governance and good management and therefore existing governance processes should be utilised wherever possible. Best value arrangements are not held separately by the board with each governance committee required to consider delivery for best value principles in everyday business.

108. The Equality Outcomes report 2023 is due to be shared with the board at the end of June 2023. Partly addressing an audit recommendation on equalities from the prior year, NHS Borders commissioned internal audit to carry out a review on health inequalities which was shared with the June 2023 Audit and Risk Committee. Actions to address the recommendations made, including how these would be evidenced are in the action plan which will be taken forward and monitored during 2023/24.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Deferred income</p> <p>Sample testing identified that some funding from the Scottish Government was deferred in error.</p> <p>Risk – that the criteria for deferring income is inconsistent with the accounting standards.</p>	<p>During 2023/24, NHS Borders should ensure that any future funding from the Scottish Government is not classified as deferred income. Management should ensure that any income which is deferred meets the criteria for deferring income as detailed in accounting standards.</p> <p>Exhibit 3</p>	<p>Agreed</p> <p>Individual deferred income balances held as at 31.03.2023 will be reviewed during 2023/24 to ensure all balances meet the criteria for deferred income.</p> <p>Responsible officer</p> <p>Deputy Director of Finance (Head of Finance)</p> <p>Agreed date</p> <p>By 31st March 2024</p>
<p>2. Working papers / payables</p> <p>There were a number of issues whereby there was an unclear trail from the accounts to the supporting evidence and were challenging to select samples.</p> <p>We identified errors relating to internal recharges and accruals. We noted that low value payables and receivables balances</p>	<p>Working papers should be revised to ensure there is a clear trail from the ledger balance to the accounts and supporting working papers.</p> <p>The finance and audit team as part of the planning processes for 2023/24 will share learnings from 2022/23 to support this process.</p> <p>Paragraph 29. - 32.</p>	<p>Agreed</p> <p>The Finance Team will revise working papers following detailed discussions with the Audit Team.</p> <p>Responsible officer</p> <p>Deputy Director of Finance (Head of Finance)</p> <p>Agreed date</p> <p>By 31st March 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>required to be reviewed and tidied in the ledger.</p> <p>The review of operating procedures has been delayed to capacity issues.</p> <p>Risk – the audit trail of evidence is insufficient, and the ledger can be tidied. Currently, these are leading to inefficiencies in the audit process creating additional work for both the finance and audit teams.</p>		
<p>3. Information Management & Technology policies and procedures</p> <p>IM&T policies are not currently refreshed on a timely basis.</p> <p>Documentation of testing activities and infrastructure architecture are not always in place.</p> <p>Risk – without clearer documentation of work done, findings and issues may not be identified on a timely basis.</p>	<p>IM&T policies should be refreshed on a timeous basis, with a clear schedule introduced to help manage this process. Improved documentation, including for testing and infrastructure architecture, will ensure a clearer trail of activities and actions carried out, findings identified and provide more clarity about where further work is required.</p> <p>Paragraph 54. - 56.</p>	<p>Agreed</p> <p>Progress during 2023/24 will be reported quarterly as part of Audit Follow up reports presented to the Boards Audit and Risk Committee.</p> <p>Responsible officer</p> <p>Kevin Messer, IT Delivery Manager</p> <p>Agreed date</p> <p>31st March 2024</p>
<p>4. Financial sustainability</p> <p>Whilst recognising the current challenging position, and the Scottish Government support, NHS Borders remain in a challenging financial position, which includes savings plans not being fully identified, and a cumulative £86.6 million brokerage being required by 2025/26.</p>	<p>NHS Borders needs to work with Scottish Government to identify a route to financial sustainability which may include service transformation whilst delivering quality services for patients.</p> <p>This includes identifying how savings targets can be achieved and learning from benchmarking activity in</p>	<p>Agreed</p> <p>Responsible officer</p> <p>Director of Finance</p> <p>Agreed date</p> <p>This recommendation will be implemented during 2023/24, in line with action plan timelines and milestones, as agreed with the directed support from the Scottish Government and from the</p>

Issue/risk	Recommendation	Agreed management action/timing
Risk – NHS Borders are unable to identify a route to financial sustainability, and face challenges in repaying brokerage.	2022/23 to identify areas where they can learn from other NHS Scotland boards. Exhibit 5	Board's Financial Improvement Programme.

Follow-up of 2021/22 prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. 2021/22 AAR Asset valuations</p> <p>Land and building assets at the board were valued by the Property Advisor in 2019/20 through a desktop exercise and updated by indexation in subsequent years. The ongoing impact from the Covid-19 pandemic on the board's staff and services meant that site visits could not be arranged during 2021/22 due to infection control restrictions.</p> <p>Risk – there is a risk that asset valuations do not represent accurate current valuations if asset conditions are not verified by site visits.</p>	<p>The Board should ensure that a full revaluation exercise, including site visits, is completed during 2022/23 for asset values as at 31st March 2023.</p>	<p>A full revaluation of all land and building assets was carried out as at 31 March 2023.</p> <p>Complete</p>
<p>b/f 2. 2021/22 AAR Payables balances</p> <p>Balances within the trade payables note to the accounts were reclassified and adjusted following audit testing.</p> <p>Risk – there is a risk that analysis of trade payables</p>	<p>The Board should ensure that payables balances are fully analysed ahead of the draft accounts being prepared in future years. Management should ensure that processes are put in place to ensure that payables balances are adequately supported by appropriate evidence.</p>	<p>Whilst there have been improvements in accruals working papers, there is further work to be carried out on deferred income, as well as reviewing a high volume of small value debtor and credit balances within payables and receivables to cleanse the ledger data.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>within the notes to the accounts is not correct.</p>		<p>Ongoing – combined with recommendation 2 for 2022/23</p>
<p>b/f 3. 2021/22 AAR ICT policies</p> <p>From a review of Information Management and Technology (IM&T) policies and procedures, we identified that a consistent approach to document management and control is not in place. A number pre-dated the onset of the pandemic by several years, with no noted formal review or refresh after initial publication.</p> <p>Risk – there is a risk that the policies and procedures in place do not represent current practices at the board.</p>	<p>IM&T policies and procedures should be formally reviewed or refreshed to ensure that they are still relevant.</p>	<p>Ongoing – superseded by recommendation 3 for 2022/23</p>
<p>b/f 4. 2021/22 AAR Financial Planning and savings</p> <p>Additional funding has been provided to the board in order to support the Covid-19 response in 2020/21 and 2021/22 and a one-year financial plan for 2022/23 has been developed. The board achieved £6.9 million of savings in 2021/22 but these were mainly achieved on a non-recurring basis. Longer-term financial plans will need to be developed to address the expected funding pressures. The Financial</p>	<p>In view of the serious financial challenges the board faces in the short and long term, the board should prioritise re-establishing the Turnaround Programme, followed by the development of longer term financial plans.</p>	<p>Ongoing – superseded by recommendation 4 for 2022/23</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Turnaround programme has been paused since March 2020 and has not yet been restarted.</p> <p>Risk – The board will not return to a balanced financial position if financial planning and efficiencies savings are not prioritised and achieved.</p>		
<p>b/f 5. Internal Controls issues</p> <p>As part of our interim audit work we identified a number of issues with internal financial controls.</p> <p>Risk – Although the weaknesses identified did not represent significant risks due to mitigating controls or limited area of impact, the identified issues should be addressed to avoid possible errors.</p>	<p>2020/21 action: Financial Operating Procedures will be reviewed and revised as appropriate for areas where weaknesses have been highlighted. Responsible officer: Deputy Director of Finance (Head of Finance) Agreed date: 30 September 2021</p> <p>Update: Long term sickness absence and retirements to finance team have further disrupted timescales. We have now established a Short Life Working Group to review Financial Operating Procedures and will be working to review all procedures during 2022/23, prioritising those issues noted within the audit by September 2022.</p>	<p>Ongoing – combined with recommendation 2 for 2022/23</p>
<p>b/f 6. Financial Planning and savings</p> <p>Additional funding has been provided to the board in order to support the Covid-19 response and a one-year</p>	<p>2020/21 action:</p> <p>Discussions are ongoing with the SGH&SC Finance Directorate to agree timelines for submission of a three year Financial Plan. The Board Executive Team</p>	<p>Ongoing – superseded by recommendation 4 for 2022/23</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>financial plan for 2021/22 was developed. However longer-term financial plans will need to be developed to address the expected funding pressures. The Financial Turnaround programme has been paused since March 2020 and has not yet been restarted.</p> <p>Risk – The board will not return to a balanced financial position if financial planning and efficiencies savings are not prioritised and achieved.</p>	<p>and the Board are currently discussing the planned re-start date for the Financial Sustainability Programme. October is the indicative re-start date at this point.</p> <p>Responsible officer: Director of Finance Agreed date: Quarter 3 2021/22</p> <p>Update: A draft three year financial plan will be developed by end July 2022 in line with Scottish Government requirements. Work will continue through 2022/23 to refine this plan in advance of the 2023/24 planning round. Financial recovery programme is currently being re-established with first round of monthly meetings with all business units to commence in July 2022. An updated financial recovery plan will be prepared by end July.</p>	
<p>b/f 7. Cyber essentials</p> <p>Cyber resilience continues to be at risk while unsupported systems and aged servers remain in use. The board has not yet achieved the Cyber Essentials accreditation. Risk – the board remains at risk of both cyber-attack and business continuity disruption.</p>	<p>2020/21 action: The IM&T Portfolio Board and the Borders Capital Investment Group will oversee the profile of work required on unsupported systems and aged servers and will consider the resources available (funding and staffing) to support this work. The Board will be regularly updated on this work.</p> <p>Responsible officer:</p>	<p>The introduction of the Network & Information Systems Regulations 2018 (NIS) categorises the NHS as an Operator of Essential Services (OES) and places a statutory obligation on the NHS to achieve NIS compliance standards. The NIS standards include all the requirements of the Cyber Essential (CE) in addition to more comprehensive requirements around cyber</p>

Issue/risk	Recommendation	Agreed management action/timing
	<p>Director of Planning and Performance Agreed date: December 2021</p> <p>Update: The introduction of the Network & Information Systems Regulations 2018 (NIS) categorises the NHS as an Operator of Essential Services (OES) and places a statutory obligation on the NHS to achieve NIS compliance standards. The NIS standards include all the requirements of the Cyber Essential (CE) in addition to more comprehensive requirements around cyber security and information governance. NIS compliance would therefore address the requirements of CE and much more.</p> <p>This greater cyber security standard is acknowledged by Scottish Government who grade CE+ accreditation as 18% cyber security compliant, while NIS would achieve between 80% - 100%.</p> <p>NHS Borders actions, in light of this, are in common with other territorial Boards and are aimed at concentrating our limited resources on NIS compliance as it is still not possible to determine a timescale for Cyber Essential accreditation</p>	<p>security and information governance.</p> <p>The NIS reports show an overall compliance of 66% which is reported in the governance statement including the improvement over the 3 year cycle.</p> <p>Complete</p>
<p>b/f 8. Accounting for IJB set aside amounts</p>	<p>2020/21 action: The 2020/21 IJB Annual</p>	<p>NHS Borders highlighted that work in 2022/23 was paused</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>The arrangements to record the sum set aside for hospital acute services, under the control of the Borders Integration Joint Board (IJB), are not yet operating as required by legislation and statutory guidance. A figure has been agreed in 2019/20 based on the budget agreed at the start of the year between NHS Borders and the IJB, rather than actual expenditure.</p>	<p>Accounts includes set aside budgets based on actual expenditure incurred in year. Further work will be taken forward to develop accounting practices for set aside budgets following the appointment of the IJB Chief Finance Officer.</p> <p>Responsible officer: Director of Finance NHS Borders Revised date: March 2022</p> <p>Update: Transitional arrangements have again been applied in 2021/22. IJB Chief Finance Officer now appointed and will commence in post on 1st August 2022. Recommended actions will be raised with CFO by NHS Borders Director of Finance and an action plan agreed for implementation at March 2023.</p>	<p>pending clarification of changes arising from development of National Care Service.</p> <p>This is still to be addressed and will carry forward into 2023/24.</p> <p>In progress</p>
<p>b/f 9. Equality considerations</p> <p>The board has scope to address challenges that it identified in its 2019 mainstreaming report update as follows:</p> <ul style="list-style-type: none"> • Complete, implement and sufficiently resource its review of the corporate governance arrangements for discharging its equality and diversity responsibilities. • Promote awareness and understanding of equality and 	<p>2020/21 action: Progress will be reported in Equalities Mainstreaming Report.</p> <p>Responsible officer: Joint Director of Public Health Agreed date: 31 July 2021</p> <p>Update: The Equalities Mainstreaming Report 2021 has been published. The Director of Public Health has acknowledged that there</p>	<p>An equalities outcome report 2023 was shared with the Board at its meeting in June 2023. However, there are further actions outstanding in relation to this work.</p> <p>Internal audit carried out a review of health inequalities during 2022/23 and this was shared at the June 2023 Audit Committee. All recommendations were agreed by management and will be taken forward during 2023/24.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>diversity across all parts of the organisation, including the value of staff disclosing full details of their personal characteristics in confidential staff surveys.</p> <ul style="list-style-type: none"> • Ensure that equality and diversity issues are addressed in sustained continuing professional development for all staff groups, including the management board. • Evidence equality and diversity aspects of its stakeholder engagement and consultation activity. • Support services to ensure that when feedback and complaints identify the need for improvements, useful changes are implemented • Regularly publish, online, updated lists of completed equality impact assessments. 	<p>is further work required to fully deliver recommendations but has highlighted that resources currently available are insufficient to achieve this outcome.</p> <p>A new Director of Public Health will be appointed during 2022. These points will be raised with the new post holder following appointment with expectation that consideration is given to any additional actions to be taken in advance of the 2022/23 mainstreaming report.</p>	<p>The action remains open, and we will assess work on equalities after allowing time for the internal audit recommendations to be actioned.</p> <p>Ongoing</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 3](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
Accounting Misstatements					
1. Deferred income not adjusted as detailed in Exhibit 3 .	Expenditure		3,923		
	Deferred income			3,923	

Account Disclosure Issues

1 Accounting policies on valuations can be further developed to ensure they are consistent with the Manual and the FReM.

2 IAS 1 requires that significant areas of judgements are identified, but also areas where there is material estimation uncertainty. The latter is where there is a risk that the nature of the estimate means that it could change materially over the next 12 months. This disclosure does not fully comply with the requirements of IAS 1 in that it does not provide the reader a clear understanding of the areas of estimation and potential impact.

NHS Borders

2022/23 Annual Audit Report

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