



NHS Greater Glasgow and Clyde

2015/16 Annual Audit
Report for the Board of
NHS Greater Glasgow
and Clyde and the
Auditor General for
Scotland

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Key contacts

Gillian Woolman, Assistant Director

gwoolman@audit-scotland.gov.uk

Helen Russell, Senior Audit Manager

hrussell@audit-scotland.gov.uk

Angus Brown, Senior Auditor

abrown@audit-scotland.gov.uk

Audit Scotland

4th floor (South Suite)

8 Nelson Mandela Place

Glasgow

G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

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(www.audit-scotland.gov.uk/about/).

Gillian Woolman, Assistant Director, Audit Scotland is the appointed external auditor of NHS Greater Glasgow and Clyde for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS Greater Glasgow and Clyde and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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Key messages

Audit of financial statements

- We have issued an unqualified opinion in the independent auditor's report that the 2015/16 financial statements show a true and fair view.
- There were a number of outstanding matters which were resolved late on in the audit process.
- The group accounts, including the financial performance of three Integrated Joint Boards, were prepared late.

Financial management & sustainability

- The Board met all of its 2015/16 financial targets. However, this was after the reclassification of certain items of expenditure from core to non-core and vice versa.
- A surplus of £0.2 million was achieved against the total Revenue Resource Limit (RRL).
- The Board achieved its overall savings target of £59.6 million. However, £11.5 million (19% of target) was met from non-recurring savings.
- The Board has sound financial management arrangements that support the review and scrutiny of financial performance.
- The fruition of an ambitious capital programme was realised with the opening of the Queen Elizabeth University Hospital and the Royal Hospital for Children in June 2015. The move was one of the largest hospital migration programmes undertaken with the transfer of almost 700 patients and relocation of over 6,000 staff. The project was delivered on time and to budget.
- There are, however, resource and performance implications associated with this change in service delivery.

Governance & transparency

- The Board has well-established and appropriate governance arrangements in place.
- Appropriate systems of internal control were in place during 2015/16. However, we have advised management of a number of matters arising and areas for improvement regarding procedures and controls related to engaging and paying medical agency locums and relating to the accounting for property, plant and equipment.
- The Board's internal audit service complies with Public Sector Internal Audit Standards.
- Robust anti-fraud arrangements are in place.
- Progress is being made by each of the six Integrated Joint Boards, with three becoming operational during 2015/16. However, procedures need to be improved in relation to the communication between parties to ensure all IJB financial statements are received in accordance with NHS timescales.



Best Value

- The Board has a well developed performance management framework in place.
- The Acute Services Committee (ASC) receives regular updates on all aspects of Acute related performance and governance arrangements, and the actions being taken to improve performance
- In the latest ASC performance report, of 27 measures, 13 were rated as green (target being met or exceeded), 6 as amber (performance within 5% of target) and 8 as red (performance out-with 5% of target).
- Areas where targets are currently being missed include A&E waiting times, sickness absence and the 62 day suspicion of cancer target. However, performance overall has shown some improvement with 30% of measures rated as red in 2015/16 against 38% in 2014/15.



Outlook

- NHSGGC will continue to operate in a period of austerity with limited funding uplifts, increasing cost pressures and a growing demand for services especially for the elderly. The NHS Board was dependent on significant non-recurrent income in 2015/16 to achieve financial balance. This demonstrates that significant changes need to be made to place healthcare provision on a more financially sustainable basis for the future. The Scottish Government's 2020 vision and the implementation of health and social care integration are intended to provide services on a more sustainable footing by shifting the balance of care from hospitals to community settings. These changes may take several years to have a noticeable impact.
- The Board recognises the risk that while the achievement of 2016/17 savings targets will be extremely challenging, financial sustainability may not be possible beyond that.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of NHS Greater Glasgow and Clyde ('NHSGGC' or 'the Board'). The report is divided into sections which reflect our public sector audit model.
2. Management of NHSGGC is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of NHSGGC, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that NHSGGC understands its risks and has arrangements in place to manage these risks. The Board should ensure that it is satisfied with the proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of NHSGGC will be continue to be Audit Scotland, but with a new audit team in place. In accordance with agreed protocols and International Standards on Auditing we will liaise with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none">• We have completed our audit and issued an unqualified opinion that the financial statements of NHS GGC and its group for 2015/16 give a true and fair view of the state of its affairs and of its net operating cost for the year.
Regularity of income and expenditure	<ul style="list-style-type: none">• In our opinion, in all material respects expenditure and income in the financial statements were incurred or applied in accordance with relevant legislation and guidance.
Other information	<ul style="list-style-type: none">• We review and report on other information published with the financial statements notably the Performance Report and Accountability Report which includes the Governance Statement and the Remuneration and Staff Report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements.• We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts.
Consolidation template	<ul style="list-style-type: none">• The Board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government Health and Social Care Directorates by 30 June 2016. These templates are used to compile the national NHS financial position.

Submission of financial statements for audit

10. We received the unaudited financial statements on 9 May 2016, in accordance with the agreed timetable. The working papers in support of the primary statements were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.
11. The financial statements of the Board are prepared in accordance with the Government Financial Reporting Manual (FReM). There has been significant restructuring to the annual report to include a performance report (which has replaced the management commentary) and accountability report (which includes the governance statement) and a renamed remuneration and staff report. These changes have been reflected in the Board's accounts.
12. We were however disappointed to note that not all of the required changes had been incorporated in the draft financial statements provided for audit. In particular there was no remuneration and staff report, and the annual report and governance statement required updating. Finance staff have worked diligently to produce a revised set of accounts which were received on 17 June 2016. We have therefore recommended that, in future years, management conduct a comprehensive quality review of the unaudited financial statements prior to submitting the accounts for audit in order to minimise the number of changes required.
13. In 2015/16, for the first time, health Board group accounts are required to include the financial results of Integrated Joint Boards (IJBs) in their area, where material. Within NHSGGC there are six IJBs; West Dunbartonshire, East Dunbartonshire, East Renfrewshire, Glasgow City, Renfrewshire and Inverclyde, of which the first three became operational during 2015/16. Material expenditure was incurred by these IJBs prior to 31 March 2016 and therefore their financial results were required to be incorporated into the NHSGGC group accounts.
14. The Board and IJBs have different reporting regimes. NHSGGC is required to submit its audited accounts by 30 June each year whereas the IJBs do not have to submit their audited accounts until 30 September each year.
15. We were disappointed to note that effective arrangements were not in place to effect this consolidation. The required information was provided on 13 June at which point NHSGGC staff updated the Board's financial statements. Revised accounts, together with appropriate back up, were received on 24 June. In 2016/17 the Board will have six IJB accounts to consolidate. It is essential that proper arrangements are agreed to ensure the flow of financial information which will accommodate the early sign off of the NHS Board accounts.

Appendix IV, action plan 2

Appendix IV, action plan 1

16. The accounts reflect good practice as set out in the Audit Scotland publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

Overview of the scope of the audit of the financial statements

17. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 8 March 2016.
18. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
19. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.
20. During the planning phase of our audit we identified a number of risks and reported these in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of

assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.

21. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

22. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
23. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
24. We summarised our approach to materiality in our Annual Audit Plan. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that we were able to revise our original planning materiality for 2015/16 to £30.9m (1% of gross expenditure). Performance materiality was calculated at £15.5m, to reduce to an

acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

25. Additionally, we set a misstatement threshold of £100,000. Amounts below this value are generally considered trivial. However, our audit testing also took account of the Board's challenging requirement to break even.

Evaluation of misstatements

26. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the financial statements in respect of a number of instances. Total adjusted errors amounted to £3.4m and included:

- revision of classification of certain items between core and non-core: £2.5m incorrectly identified as non-core to core and £1.2m of core to non-core. As a consequence, £1.3m of unutilised non-core funding was returned to the SGHSCD
- £0.3m (reduction in accruals) which related to entries where management could not provide evidence of goods or services being received in 2015/16
- £0.4m (reduction in accruals) to incorporate an error in estimation of the year end FHS accrual for expenditure in 2015/16

- £0.3m (increase in accruals) to reflect an increase in the untaken holiday pay accrual
- £0.1m (reduction in accruals) to reflect an error accounting for VAT in the year end stock certificates
- £0.4m (increase in trades receivables) to reflect income recorded in 2016/17 which related to 2015/16.

27. Those adjustments together with the inclusion of the IJB balances had the following impact on the health Board's reported financial outturn for the year:

- Surplus reported against core revenue resource outturn was amended from £0.8m to £0.2m.
- Break even against non-core revenue remained as reported previously.

28. A number of other misstatements were identified which were not processed through the financial statements by management and have been classified as unadjusted misstatements. Were they to be processed they would reduce expenditure by £0.548m and increase net assets by £3.9m. The most significant of these items related to:

- Revaluation of surplus assets and assets held for sale to reflect fair value would increase net assets (£3.2m)
- Cancer treatment related accruals (£0.33m) which had been accrued for budget funding not yet spent in 2015/16.

- PPSU pharmacy project and other ring fenced funding (£0.12m) which had accrued budget funding not yet spent in 2015/16.

Significant findings from the audit

29. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
30. Table 1 below details those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit**Significant findings from the audit in accordance with ISA260****Core expenditure classified as non-core expenditure.**

The financial statements initially provided for audit, recorded £4m non-core expenditure to match funding received in January 2016 from the Scottish Government Health and Social Care Directorates (SGHSCD). We were advised that the funding had been applied to cover expenditure items such as compensation payments and non-domestic rates. Following discussion with officers it was agreed that elements of the expenditure originally classified as non-core was not compliant. Management have identified further expenditure which they consider more properly falls to be recorded as non-core: a salary accrual of which the agreement and basis is uncertain and disputed expenditure payments which are unlikely to be paid. The impact of these adjustments has resulted in a decrease in non-core expenditure of £1.3m and a corresponding increase in core expenditure of £1.3m. We have agreed with this assessment based on the evidence provided and are satisfied that non-core expenditure has been reasonably presented. In addition, we have asked the accountable officer for assurances that core and non-core expenditure have been fully assessed and properly disclosed in the accounts.

Appendix IV, Action plan 3**Additional support from SGHSCD**

The additional funding received in January 2016 contributed to the Board achieving financial balance as stated in the original accounts presented to audit. However, as stated above, core expenditure was covered by this funding. It is our view that this allocation may have contributed towards the incorrect classification of costs in order to achieve financial balance. The Board and the SGHSCD need to discuss the allocations, their type and their timing to enable better financial planning and thereby minimise financial risk to the Board.

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Significant findings from the audit in accordance with ISA260

Accounting for property, plant and equipment (PPE)

Surplus assets

IFRS13, Fair Value Measurement, came into effect in 2015/16. This requires surplus assets to be clearly identified and to be revalued at Fair Value, unless there are restrictions on the asset which would prevent access to the market at the reporting date, in which case the asset should be valued at current value in existing use.

We found no clear distinction in the accounting records of those assets which are deemed to be surplus. Consequently one could not readily conclude whether surplus assets were correctly valued. The property committee minutes identify 25 assets to be sold or disposed of, of which only some have been declared as surplus.

Additional audit work had to be conducted to determine which assets are surplus, and consequently whether the appropriate basis for their valuation has been applied.

Management has now explained to us the range of restrictions which exist which prevent the ready marketing of certain assets. This therefore negates the need to revalue those assets as 'surplus' or 'assets held for sale'. This is in accordance with the Capital Accounting Manual and guidance received from the DVS.

Based on discussions and evidence provided by officers we are assured that assets identified as surplus are not materially misstated.

Accounting treatment of reserves associated with assets held for sale

Where assets have been identified for sale the NHS Capital Accounting Manual states that any associated Revaluation Reserve should be transferred to the General Fund. NHSGGC had revaluation reserve balances relating to assets classified as held for sale. Therefore the revaluation reserve was over stated.

Officers agreed to amend the revaluation reserve balance and transfer the appropriate amount to the General Fund.

Significant findings from the audit in accordance with ISA260**Accounting for property, plant and equipment (PPE) (cont'd)*****Valuation of assets held for sale***

When a surplus asset is classified as held for sale, the asset should be revalued to the lower of carrying amount or fair value less cost to sell, bearing in mind that when it goes from operational to surplus it will have been revalued to fair value. None of the 6 assets initially classified as held for sale had been revalued on this basis. In particular, we noted from the property committee's minutes that two of those assets had the potential to achieve a gain of £17m which was far greater than the carrying value. There was a risk that non current assets and the revaluation reserve were understated.

As a consequence of this audit finding management engaged the District Valuation Service (DVS), an independent expert, to review the value of the six assets held for sale. This resulted in an increase in value, but of a lesser amount, of £3.2 million, due to the current status of those sales. At this late stage management have decided not to amend and the £3.2m has been taken to the summary of unadjusted differences. On further examination management have also decided that four assets do not meet the criteria to be classified as assets held for sale and reclassified them. We are satisfied as to the amendments processed in this respect.

Completeness of 'assets for sale' category

From our review of NHSGGC's Capital Receipts Programme we noted a number of other sites which were being actively marketed as at 31 March 2016 for sale within the next 12 months. We sought an explanation from management as to why these were not classified as assets held for sale and consequently not revalued on that basis. There is a risk that the values of such assets are over or under stated. This also has implications for the revaluation reserve and the Comprehensive Income and Expenditure Statement.

Officers have advised that although these sites are being actively marketed, they do not consider that them to fulfil all the requirements so as to be defined as assets held for sale and that experience has shown that such sales are rarely concluded quickly.

Consequently we are satisfied with the current categorisation of these assets.

Significant findings from the audit in accordance with ISA260

Accounting for property, plant and equipment (PPE) (cont'd)

Overall conclusion on property, plant and equipment

We have discussed all these matters with the Director of Finance and examined the late additional information which was presented as audit evidence. In addition, in view of the degree of judgement that has to be applied, we have sought management representation that non-current assets have been recognised, measured, presented and disclosed in accordance with the 2015/16 Government Financial Reporting Manual and that there are no plans or intentions that are likely to affect the carrying value or classification of the assets within the financial statements.

These findings together with the matters raised in our interim report on 'Accounting for PPE' (issued in May 2016) reflect areas for improvement within the accounting and reporting systems for non-current assets.

Appendix IV, Action plan 5

Equal Pay

In 2014/15 the Director of Finance for the SGHSCD advised that equal pay claims were to be included as a provision in the accounts of NHS Boards because an offer of settlement in relation to certain claims had been made. There have been significant developments in 2015/16 whereby these claims are due to be settled. SGHSCD has provided funding to cover the costs of equal pay which are included in the accounts. We can confirm that the Board has properly accounted for equal pay in accordance with Scottish Government guidance.

This matter is now closed.

Significant findings from the audit in accordance with ISA260**Clinical Negligence and Other Risks Indemnity Scheme (CNORIS)**

The Board holds significant liabilities in connection with claims for clinical and non-clinical negligence: £56.3m in the CNORIS provision and £32.6m in Trade Payables. The latter relates to 6 structured settlements and which were also recognised in the accounts in 2014/15. These structured settlements represent compensation claims which have been agreed by the Board and have been settled on the basis of an initial lump sum with annual payments being made over the life of the claimant. The accountable officer has provided written representation on the adequacy of the basis for estimation in the absence of national guidance to calculate the liability. The Board, being part of the CNORIS scheme has a matching asset which represents 89% of this liability.

In addition, there is a total provision for £102.5m which reflects NHSGGC'S contribution to the national CNORIS scheme. Last year was the first year in which the funding of the scheme was accounted for at individual NHS Board level. There is therefore increasing transparency of the cost of clinical and non-clinical negligence to NHS Scotland.

For information only**Trades payables – accruals**

Our audit review identified a number of year end accruals for which no goods or service had been received or where evidence was not available to support the accrual. In addition we also identified specific funding from the SGHSCD for projects, where, due to the nature of those projects, not all of the funding had been spent by year end. We are able to record that the quality of evidence provided continues to improve. As a number of these accruals were unsupported, management agreed that accruals are overstated by £0.3m (2014/15:£2.4m). We have discussed with the Director of Finance the need to review this area in conjunction with the SGHSCD and NHSGGC finance staff to ensure that liabilities are only accrued when there is a constructive obligation and that funding for special projects better reflects the planned phasing of expenditure.

We have reviewed the associated working papers and are able to accept the evidence provided. Management have advised that they will continue to improve the working papers in support of the accruals.

Appendix IV, Action plan 6

Significant findings from the audit in accordance with ISA260

Goods received not yet invoiced (GRNIs)

Included within trade payables are accruals for GRNIs. Our audit testing identified a number of GRNIs which referred to goods received in prior years. Officers advised us of a system processing fault and were able to provide some evidence to support a number of the accruals. We have also discussed the need for officers to undertake a review of the underlying systems and processes which provide the information for inclusion within the financial statements.

In addition to our review of the associated working papers, we have asked management for assurances that the purchasing system used to calculate the accruals provides a fair reflection of the actual liability.

Appendix IV, Action plan 7

Endowment funds

IAS27 *Consolidated and Separate Financial Statements* requires host Boards to consolidate endowment funds established by the National Health Service (Scotland) Act 1978 into their financial statements. The endowment funds figures used in the consolidation process were based on a draft set of endowment fund accounts. Whilst the audited accounts have not yet been published, the auditors of the endowment funds have completed their audit. We await confirmation that there are no matters identified that would impact on the figures consolidated into the Board's accounts. The audited accounts for the endowment funds are due to be signed on 28 June 2016.

We await sight of the wording of the audit certificate on the endowment funds before signing the group audit certificate.

For information only

Significant findings from the audit in accordance with ISA260**Integrated Joint Boards (IJBs)**

On the basis that no single party controls the arrangement on its own and that any one of the parties can prevent any of the other parties from controlling the arrangement, the accounting for IJBs is as defined by IFRS 11 *Joint Arrangements*. Joint control is defined as “the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control”. IFRS 11 notes that an interest in a joint venture shall be recognised as an investment and shall be accounted for using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

The IJB figures used in the Board’s financial statements were based on draft sets of accounts which were received on 13 June 2016. Whilst the audited accounts for the IJBs are not due to be signed until 30 September 2016, in accordance with the local government accounting timetable, arrangements have been put in place for us to receive appropriate assurance from the auditors of the IJBs.

For information only

Consolidation of IJB accounts

As noted above, material expenditure has been incurred by the integrated joint Boards. 2015/16 required the consolidation of 3 operational IJBs. While the impact on the outturn is not material, separate disclosure is required across a number of the notes in the Board’s accounts. The inclusion of IJBs for the first time in the group accounts has required separate disclosure of £166.9m within note 4 (hospital and community health expenditure) and note 8 (operating income) £166.7m. Note 33 which reflects consolidation adjustments recognises the £1.5m investment which is NHSGGC’s share of the reserve balance being carried forward by each of the IJBs. This investment in the group accounts represents 50% of the Board’s interests in the three joint ventures. The associated accounts have not yet been subject to audit but for the purpose of the NHSGGC group accounts, there is unlikely to be any variation between the unaudited and audited results which could have a material impact on the group accounts.

For information only

Future accounting and auditing developments

Health and Social Care Integration –

31. As noted earlier, from 1 April 2016 the remaining 3 IJBs which were not operational in 2015/16 (Glasgow City, Renfrewshire and Inverclyde) will be accountable for the provision of health and social care. There were significant challenges in achieving the Board's statutory reporting obligations with 3 operational IJBs in 2015/16. The inclusion of a further 3 in 2016/17 will increase the challenge.

Appendix IV, action plan 2

Restructuring of the NHS in Scotland

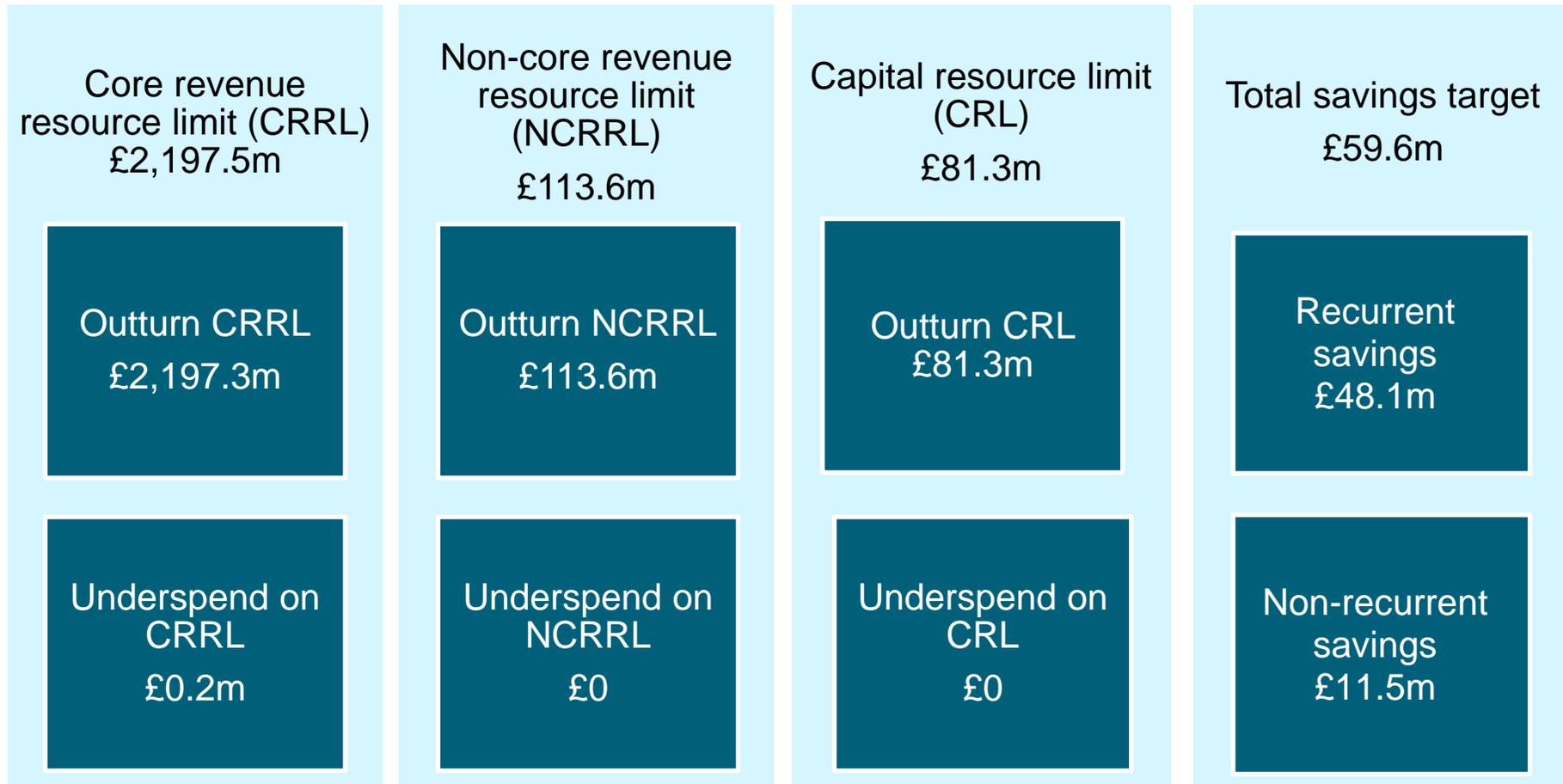
32. The First Minister recently referred to the need for the structures of the NHS and its relationship with local government to reflect the way in which health and social care was being delivered. As a consequence, there is an intention to build upon the integrated approach and review the number, structure and regulation of health Boards and their relationship to local councils. There are currently 22 health Boards and 31 new local integration bodies to deliver health and social care. The challenge will be for Boards to focus on

the delivery of essential services to its users whilst change is once again being considered at the highest levels.

Audit appointment from 2016/17

33. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment round.
34. The procurement process for the new round of audit appointments was completed in March 2016 following which Audit Scotland was appointed auditor for NHS GGC for the five years commencing 2016/17 although with a different audit team. Your new appointed auditor will be David McConnell and the Senior Audit Manager with operational responsibility for the audit will be Elaine Boyd.
35. We would like to thank Board members, audit committee members, executive directors and other staff, particularly those in finance, for their co-operation and assistance over the last five years.

Financial management and sustainability



Financial management

36. In this section we comment on the NHSGGC financial performance and assess the Board's financial management arrangements.
37. The Board, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD). The budget for revenue expenditure is termed the Revenue Resource Limit (RRL) and consists of core and non-core elements. The budget for capital expenditure is termed the Capital Resource Limit (CRL). Both funding streams are agreed annually with the SGHSCD.
38. The Board must ensure that expenditure is held within the resource limits set by the SGCHD. Regular monitoring of expenditure and income against these budget limits is central to effective financial management and keeping expenditure within agreed limits.

Financial performance 2015/16

39. The Board's final RRL (£2,311.1 million) and CRL (£81.4 million) were agreed with the SGHSCD on 23 June 2016.
40. The Board had budgeted to break-even against its RRL in 2015/16. The actual out-turn position for the year was an underspend of £0.2m. Throughout 2015/16 the Board had been reporting an overspend whilst forecasting a year end break even position. Banked funds from 2013/14 and 2014/15 (£11.2m) were released by the SGHSCD to assist the Board in managing double running

costs in 2015/16, the year in which services were transferring to new hospitals.

41. The Board achieved its financial targets for 2015/16 as illustrated in Table 2. This however, was achieved due to a number of non-recurring instances: as noted earlier, an £11.2m underspend to fund double running costs; a transfer of £3m from capital; non-recurrent savings of £11.5m; and a £5m reduction in holiday pay accrual and the restructuring provision. Excluding the £11.2m underspend, this supported some £20-£25m of expenditure for which there shall be no recurring funding in future years. This demonstrates that the current service delivery model for NHSGGC is not sustainable.

Table 2: Summary of financial performance

Performance against budget limits	Target (£m)	Actual (£m)	Saving (£m)
Core revenue resource limit	2,197.5	2,197.3	0.2
Non-core revenue resource limit	113.6	113.6	0
Core capital resource limit	68.1	68.1	0
Non-core capital resource limit	13.3	13.3	0
Cash requirement	2,466.5	2,466.5	0

Source: NHSGGC 2015/16 Financial Statements

42. The final outturn position reflects an overspend within the Acute Services Division (ASD) of £9.9m which was met by an underspend of £1m in the Partnerships Division and £9.7m non-recurring savings from corporate budgets (for example land sales, VAT rebates and additional efficiency savings).
43. The overspend in ASD was the result of increased activity levels, the requirement to achieve waiting list initiatives and treatment time guarantees, increased usage and cost of medical agency staff, increased usage and cost of nurse bank and agency staff. Senior medical agency spend at £9.1m (2014/15: £6.9m) and junior medical agency at £8.4m (2014/15: £5.8m) for the 12 months to March 2016 exceed expenditure levels from 2014/15 by some £5m. Nurse bank and agency staff cost £3.1m more compared to last year. Additional costs are largely related to higher than usual sickness/absence levels in 2015/16. We are also aware that the vacancy rate for nursing and midwifery rate has increased by 16% in comparison to last year.

Efficiency savings

44. NHSGGC, in common with other territorial health Boards, was required to make efficiency savings totalling 3% of its baseline RRL in 2015/16. This equated to a savings target of £59.6 million. The Board met its savings target for 2015/16 with £48.1 million (81%) achieved on a recurrent basis and the balance of £11.5 million (19%) on a non-recurrent basis. These significant non-recurring savings highlight the financial pressures the Board is currently facing.

Capital resource limit 2015/16

45. The Board spent a total of £81.3m on capital projects during 2015/16. This amount was within its final CRL of £81.3m; during the year £20m (20% of the original allocation) was returned to the SGHSCD on the understanding that the funding would be available for spending in 2016/17. We note with concern that 20% of the original budget was not invested in Board capital plans as originally envisaged.

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46. The key area of the 2015/16 programme was the continuing work on the new South Glasgow Hospitals (SGH) project. £24.7m was spent on this project during the year, with a further £23m reflected in the note to the accounts as capital commitments.
47. Expenditure on other major capital projects included the upgrade of existing and continuing SGH sites (£6m); eHealth ICT (£4.2m), property upgrades (£10.5m) and medical equipment (£14.7m).

Financial management arrangements

48. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Director of Finance has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the Board
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
49. The Board's standing financial instructions and standing orders are updated annually and we are able to conclude that they are comprehensive and current.
50. Financial monitoring reports (both revenue and capital) are submitted to all meetings of both the Board and the Acute Services Committee. Management continue to review and revise the monitoring reports to ensure they provide members with a more comprehensive range of financial information.
51. Reports are necessarily at a strategic level and lack detail. Whilst more detailed discussions take place at Board seminars and at member/officer off-line discussions, Board members themselves have expressed that, in view of ongoing financial pressures, they would welcome the opportunity to revisit current arrangements in order to more rigorously hold key budget holders to account in a

formal setting. We would agree with this view and we are aware that the Board chair is currently reviewing processes. More detailed monthly financial monitoring reports are provided to budget holders.

52. As auditors we attend a number of Board and committee meetings each year. Members provide a good level of challenge and question management on significant variances and service performance issues.

Conclusion on financial management

53. We have concluded that the Board has sound financial management arrangements that support the review and scrutiny of financial performance and the achievement of financial targets.

Financial sustainability

54. Financial sustainability is concerned with whether the Board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the Board's financial performance, financial planning and its use of resources principally asset management and workforce management.

Financial planning

55. The Board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the vast majority of

resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the Board.

56. The Board's five year plan for the period 2016/17 to 2020/21 is a key element of the LDP. The draft plan has been compiled to reflect a break-even position in each of the five years. The plan also recognises the significant cost pressures facing the Board going forward, notably staff pay costs and the growing costs of drugs. Also, there is a rising demand for services particularly among the elderly. From 2017/18 onwards the funding uplift has been assumed to be 1.8%. All these pressures exacerbate a tightening financial position.
57. The 5 year financial plan is currently in draft form and requires some refinement and updating for the years subsequent to 2016/17. It is anticipated that it will be finalised and presented to the Board on 28 June for approval and final submission to the SGHSCD.
58. The basic funding uplift for 2016/17 is 1.7% although further funding uplifts have been made available to cover the integrated care fund, drug cost pressures and delayed discharges.
59. A range of cost pressures have been identified and these include pay costs (£50.5m), prescribing (£24.5m), other cost inflation (£10m), funding transfer to IJBs (£59.1m) and £7m to fund specific service pressures and new initiatives.
60. Savings will therefore play a crucial part in maintaining financial balance over the 5-year period and the realisation of savings will become progressively more challenging year on year. The challenge for the Board is to achieve savings of £69m (3% of baseline) in 2016/17. These savings will need to be planned for on a recurring basis.
61. It has been estimated that savings will be achieved largely through workforce rationalisation and reductions in facilities' costs and procurement. The Board has identified savings of £46m as being low and medium risk with the remaining highlighted as high or 'red' risk. Within the 'red rated' schemes are some clinically led schemes which will require service delivery changes (£8m) and which were originally deferred from 2015/16 following discussions with the SGHSCD. Efficiency savings of £10m remain to be identified. Furthermore, by relying on non-recurring savings to achieve financial balance in 2015/16, the Board will have to find further recurring savings in 2016/17.
62. It has already been recognised that non-recurring cash savings will be required to achieve financial balance at 31 March 2017. As at June 2016, the Board anticipates a funding gap of £24m for the 2016/17 financial year. Non recurrent coverage has been identified for 2016/17. (refer to para 80)
63. The Director of Finance has stated in the LDP that 'Whilst the Board at this point continues to work toward a balanced budget for 2016/17, it is apparent that again in 2016/17 the Board will be reliant

on non-recurring sources of funding to achieve in-year balance. This position is clearly not sustainable. It is critical the Board now embarks on a process to devise a plan for 2017/18, in conjunction with Integrated Joint Boards, to ensure a model of affordable service delivery and quality patient care up to, and beyond, 2020'.

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Backlog maintenance

64. In March 2015, the annual State of NHS Scotland's Assets and Facilities report was published by the Scottish Government. It identified backlog maintenance of £797m across Scotland which is required in order to bring assets to a satisfactory condition. NHSGGC accounts for 24% of this total. The report acknowledged that this would reduce by some £12m once the new hospitals were fully operational and the older buildings vacated and closed. The 2016 report is due to be published shortly.
65. Of the 10 NHS Scotland hospitals with the highest total cost for backlog maintenance (£290m), NHSGGC has 3 hospitals with backlog maintenance costs of £97m. NHSGGC has plans in place to address this backlog as part of an ongoing investment programme. Prioritisation of investment on these properties would make a significant contribution to reducing NHS Scotland's backlog maintenance burden.
66. In recognition of the backlog maintenance, a transfer from capital to revenue funding of £3m was agreed by the SGHSCD in 2015/16.

There remains a challenge in ensuring the older estate remains fit for purpose.

Workforce Management

67. Workforce planning is integral to the Board's strategic planning process and is a key element of the LDP. The availability of staff is an important factor in the Board's capacity to provide safe patient care. As noted previously, NHSGGC's overspend in the Acute Services Division (ASD), was largely attributed to the costs of employing agency staff. As part of our 2015/16 audit we undertook a targeted review of the controls in place relating to agency costs, nurse bank costs and the related issue of high sickness absence levels in the Board's ASD.
68. Our report which we presented to the Audit Committee in May 2016 noted that:
 - NHSGGC total expenditure on external agency staff has risen in recent years; from £17.4m in 2013/14 to £29.2m in 2015/16 (68% increase)
 - within the ASD, agency consultants and agency junior doctors (referred to collectively by the Board as 'medical agency locums') account for £16.6m of the ASD's annual spend on agency staff (£12.8m in 2014/15). By ASD staff category, the largest increases this year were for agency consultants and agency junior doctors (an increase of £4.0m from the prior year)

- contrary to Board policy, medical agency locums are being used to provide long term cover. This may not represent value for money and places a strain on the Board's resources
 - the Board, in common with the NHS in Scotland generally, faces challenges recruiting medical staff in certain specialties and locations
 - increased nurse bank and nurse agency costs have been incurred as a consequence of rising sickness absence and increased activity
 - we found that high sickness rates in both north and south sectors are driven mainly by long term sickness absence. The South Sector's sickness absence is particularly high and averaged 8.7% in the period reviewed (July to December 2015). Across the same period the North Sector reported an average absence rate of 7.3%. These average rates are well above the 4% Local Delivery Plan target rate
 - nurse bank expenditure has risen from £28.2m in 2013/14, to approximately £34.0m in 2015/16. Sickness levels have also impacted on agency usage, with acute agency nurse spend rising to £1.7m in 2015/16 (2014/15: £0.6m)
 - nurse bank and agency staff were being used to cover long term sickness which is contrary to Board policy
 - there is scope for improving the reporting of sickness absence and return to work discussions in order to provide management with better information to monitor sickness rates and take effective action.
69. Management advised that an Agency Locum Steering Group has been set up to assist the Board in its overall review of its use of agency staff. The matters raised in our report will be taken forward by this group.
70. We acknowledge that the use of bank, agency and locum staff provides flexibility to cover for vacancies and staff absence. We are also aware that their increased use and related cost impact are national issues. However, continued reliance on such staff could have an impact on the Board's plans to achieve the savings required for longer term sustainability.
71. As with other health Boards, NHSGGC is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. Overall the annualised sickness absence rate at 31 March 2016 was 6.1% compared to the Scottish average of 5.1%. We have referred to the increasing levels of nurse staff sickness absence previously. The Board is committed to managing sickness absence downwards.
72. The 2015/16 financial statements include £980k of costs relating to 35 exit packages (2014/15: 11 packages, £468k). These relate to settlement agreements which have been acknowledged by the Board as offering a recognised way for employees to leave the organisation on a mutually agreed voluntary basis. We tested a

sample of payments and noted that each agreement was as a result of a service redesign process, was supported by a business case, and had been appropriately authorised.

Cost of pension provision

73. As part of the reform of public service pensions across the UK, new Career Average public service pension schemes were introduced from 1 April 2015.
74. A revaluation of the NHS in Scotland pension scheme was undertaken in 2014/15 using pension scheme data as at 31 March 2012. A new employer contribution rate payable from 1 April 2015 to 31 March 2019 was set (from 13.5% to 14.9%) which led to an increase in costs of £16m during 2015/16.
75. The 2016/17 financial plan reflects a provision of £25m in respect of the abolition of the employers' "contracted out" rebate for staff members of the NHS Superannuation scheme.

Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

76. NHSGGC has a number of PFI commitments which are disclosed in the accounts. Seven contracts are reported on balance sheet and include the Stobhill and Victoria Hospitals ambulatory care and diagnostic treatment centres and elderly and mental health facilities. The capital value of these projects has been included as part of the Board's non current assets at a value of £249.3m. The associated

recurrent revenue cost of these schemes is £29.7m with gross minimum lease payments of £515m due over the remaining repayment periods.

Conclusion on financial sustainability

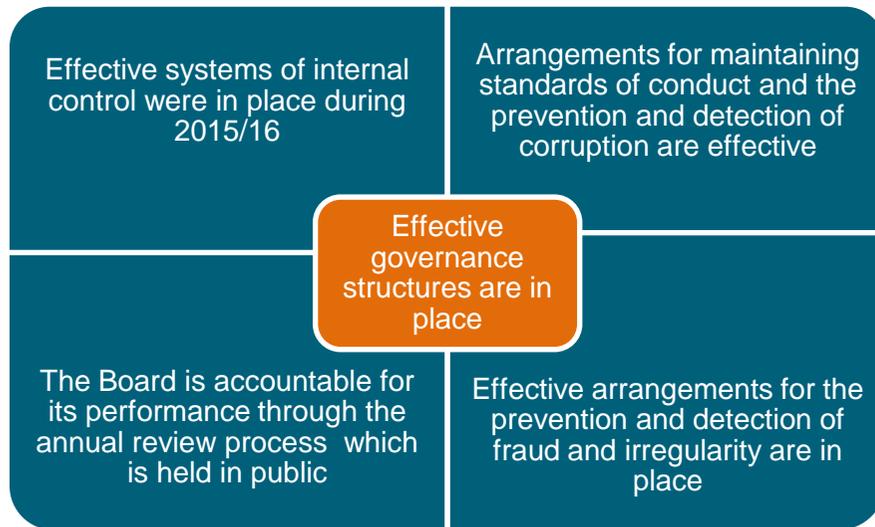
77. The Board's financial planning and monitoring arrangements are sound and it has a track record of delivering efficiency savings. However, in 2015/16, non-recurring savings and sources of income were applied in order to achieve financial balance. Given the Board's own assessment of the risks it faces in delivering the five year financial plan, financial sustainability under the current funding model is under extreme pressure and more challenging than in previous years.

Outlook

78. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more while facing increasing cost pressures and static or decreasing real terms funding. The achievement of performance targets and standards therefore becomes increasingly difficult.
79. NHSGGC recognise the financial challenge ahead. The Director of Finance has reported that a balanced budget in 2016/17 will only be achieved through the further utilisation of non-recurring provisions and reserves.

80. The SGHSCD has agreed to revise how certain provisions are funded, and this will alleviate demands placed on the revenue resource limit. This was identified as part of the national Balance Sheet Flexibility Group and involves reclassifying the funding source of pre-2010 provisions, particularly in relation to Pension and Injury Benefit provisions. Some Boards benefited from this change in 2015/16 and NHSGGC will benefit by £32.5m through the reversal of these historic provisions in 2016/17. This should assist the Board in meeting its financial targets. This reversal does not impact on the actual level of provision as it relates to the funding source; however there will be a future charge to the revenue resource limit as a consequence.

Governance and transparency



81. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHSGGC and for monitoring the adequacy of these arrangements.
82. There have been changes to the Board's governance structure. From 1 June 2015 a new Acute Services Committee (ASC), focussing on acute services was set up following the winding up of the Quality and Performance Committee (QPC) which met once during the year. This change required as a result of the establishment of IJBs with their own governance arrangements. It

provides a focus for the scrutiny of clinical governance, performance, patient safety, quality and finance. The Board is supported by a number of other standing committees as illustrated below.



Corporate Governance

83. The ASC's function is to scrutinize the governance and strategic direction of acute services. It is responsible for overseeing:
 - the quality of patient services

- effective patient safety and governance systems
 - delivery of corporate objectives and the LDP
 - financial planning and management
 - staff and patient focused public involvement
 - that learning from performance issues drives improvement.
84. The ASC met five times during 2015/16 and has a very full agenda. An Audit Scotland representative attends the meeting as an observer. The Staff Governance Committee oversees the Remuneration Sub-Committee.
85. The audit committee exercises scrutiny in its consideration of internal audit work programmes and outputs and receives all external audit reports. In addition fraud updates are regularly discussed and the corporate risk register periodically reviewed. We are aware that one meeting was inquorate but that steps have been taken to ensure that this is avoided in future.
86. The audit committee also considers risk management arrangements and a corporate risk register is considered regularly. The committee is supported by the Risk Management Steering Group who review the risk register regularly and determine the risks which should be included on the corporate register.
87. In April 2016, the Board approved changes to the NHSGGC Standing Financial Instructions and Scheme of Delegation, and Fraud Policy. The main changes incorporate the requirements of

the Public Bodies (Joint Working) (Scotland) Act 2014 and the new organisational structure established by the Board.

88. A revised management structure with three territorial and four cross-system directors was introduced in June 2015. These changes continue to bed in.
89. Based on our observations and audit work our overall conclusion is that governance arrangements within NHSGGC are operating effectively.

Internal control

90. As part of our audit we review and test the Board's systems of internal control for the purposes of our audit of the financial statements. Our objective is to obtain sufficient audit evidence to support our opinion on the Board's financial statements.
91. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
92. We presented a number of audit reports to the audit committee over the year and these are detailed in appendix II. We raised a number of matters arising in each of these reports and management have provided responses together with a timescale for action.

93. We advised the accountable officer that the matters raised in these reports should be considered as part of the assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement. We are aware that disclosure has been made in respect of matters raised in our report on the Review of Agency Staff, Nurse Bank Staff and Sickness Absence. After consideration of the matters raised in our review of accounting for property, plant and equipment report together with the matters raised in this report, an additional disclosure has been included in relation to future action to address the weaknesses identified.

Shared Services

94. There are a number of systems where NHSGGC is dependent on another NHS body for the provision of services. NHS National Services Scotland (NSS) provides Practitioner Services and National Information Technology systems and contracts. From 1 April 2013 the board has been using the eFinancials National Single Instance (NSI) to record financial ledger transactions. NHS Ayrshire & Arran has responsibility for the support of these finance systems.
95. In accordance with International Standard on Assurance Engagement 3402 (ISAE3402), NHS Ayrshire & Arran and NHS NSS commissioned service auditors to provide independent assurance that key controls and processes are operating satisfactorily. All opinions from service auditors were unqualified for 2014/15 but some matters arising were identified. Management

should continue to work closely with the host boards to ensure adequate resolution of the matters identified for improvement.

Internal audit

96. Internal audit provides the Board and accountable officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by PriceWaterhouseCooper (PwC). We carried out a review of the adequacy of internal audit. Based on this review and our local knowledge of audit arrangements at NHSGGC we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
97. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2015/16 we placed formal reliance on aspects of internal audit's work including accounts payable, payroll and property, plant and equipment.

ICT audit

98. ICT is a key area of control because it underpins all systems used by the Board. This year our ICT audit work included a Computer Services Review (CSR) which was issued in January 2016. This review considered the processes involved in managing computer systems and protecting the information stored on them. Although

the report does not highlight any particular risks, we noted a number of areas where significant developments are taking place and have highlighted the challenges and opportunities facing the Board in tackling these. These included:

- the upcoming review of the Health Information and Technology (HI&T) structure provides an opportunity to review the complex governance landscape
- the challenge remains to ensure that user access to information resources is properly managed
- the implementation of privacy guarding software FairWarning, has not progressed as quickly as expected due to technical issues. Once fully implemented, experience shows that, initially, the number of investigations resulting from this will be significant
- disaster recovery arrangements for IT systems require services to keep their own business continuity arrangements tested and up-to-date, to ensure they can continue providing care even if technology is not available.

99. The Director of eHealth agreed with the messages relating to key areas and provided full management responses.

100. Our Annual Audit Plan referred to the developing threat of cyber attack and related activities. Previous ICT internal audit work had established that the risk of cyber attack was not being proactively monitored nor was it considered to be a corporate risk. We

therefore reviewed NHSGGC's level of preparedness and proactive measures being taken in this area.

101. Our review identified:

- the 2010 National Security Strategy identified cyber as one of the top threats to the UK. Although the Board's risk register includes a general risk relating to information management and security, it does not recognise cyber security as one of the highest priority national security risks.
- The Board has recognised in the corporate risk register that staff might not always be aware of the range of information security policies and procedures in place and the significance of not following them. As nearly all successful attacks require the assistance of an innocent person inside the organisation, the Board should not only expand their information security awareness training, but also consider measuring the extent to which staff implement the knowledge gained from the training and awareness campaigns.
- The Board has reviewed its allocation of responsibilities for information security following publication of guidance from the Scottish Government in 2015. Information security is now divided amongst a variety of officers, with the Director of Finance acting as the Senior Information Risk Officer, the Director of Public Health as the Caldicott Guardian and the Director of eHealth responsible for the technical security of the Board's ICT systems. However, the interaction and

collaboration between these roles remain subject to further development.

- Cyber-attack incidents are managed through the Board's eHealth major incident processes. However we are aware that there has been an inconsistent classification of incidents resulting in one cyber attack not being identified as a major incident.
- The Board has had cyber-attacks in the past, some of which were subject to formal major incident reports and others not. Although the Board has measured the time taken to recover from major incidents, the impact and cost on the Board's activities relating to these have not been assessed.

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- 102.** We also issued two follow up reports (May and June 2016) which followed up on progress addressing outstanding ICT control issues from prior years.
- 103.** Our first report followed up 6 areas of risk exposure relating to governance, procedures and security with respect to user identity management and to ICT change management. We were pleased to note that good progress had been made with reducing the risk exposure relating to user management, though noted the ongoing risk to the Board's information resulting from continued inefficiencies in user identity administration. Management updated action taken to date and provided revised timescales for action.

104. The second report followed up on 7 issues relating to governance, procedures and testing with respect to business continuity management for selected finance functions. We acknowledged that internal audit were taking forward 2 of the risks as part of their work on business continuity, but noted delay in implementing the remaining 5 actions. Following discussion with management, revised actions and timescales on 3 of the risks have been agreed. In relation to the remaining 2 matters, management have advised that they do not intend to take any further action; they consider that there are mitigating controls in place to address the risks. We have advised officers that without fully documented and tested business continuity arrangements the board might not be able to effectively deal with a disruptive event and continue providing their services as required by the Civil Contingencies Act 2004. We also reported that, as a consequence, in respect of the systems reviewed, they will not comply with the Board's Business Continuity Management strategy.

105. Subject to our comments raised above, we concluded that the Board's ICT arrangements are effective.

Arrangements for the prevention and detection of fraud and other irregularities

106. We assessed the Board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas including whistleblowing. The Board also works closely with

Counter Fraud Services (CFS) to raise awareness and provide training on fraud prevention and detection.

107. We concluded that the Board is proactive in promoting fraud awareness and had effective arrangements in place for fraud detection and prevention during 2015/16.

National Fraud Initiative in Scotland

108. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
109. The current NFI exercise identified a total of 6,273 matches of which 780 were recommended for investigation. 589 matches of these related to one specific report (duplicate creditors). Officers carried out a filtering exercise on this report to identify the higher risk cases on which to focus investigation.
110. As at 8 June 2016 the Board had investigated 452 matches, with 28 matches still in progress awaiting responses from other bodies. Three cases resulted in further action: one related to a potential fraud, where an employee attended a training day while claiming to be on sick leave; two instances were errors (an expired visa and a

duplicate creditor's payment). The results of NFI activity are also reported to the Audit Committee regularly throughout the year.

111. We reviewed NFI progress as at February 2016 and concluded that good progress had been made investigating matches and recording outcomes on the NFI system. While the Board has potential to make use of more staff resources earlier on in the exercise to investigate data matches more promptly, the overall engagement with the NFI exercise is appropriate. The next biennial national NFI report is due to be published in summer 2016.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

112. The Board has in place a range of activities designed to maintain standards of conduct including codes of conduct for officers and members. There are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
113. Based on our review of the evidence we concluded that the Board has effective arrangements in place for the prevention and detection of corruption.

Transparency

- 114.** The performance of all NHS Boards is subject to an SGHSCD-led annual review process. The annual review aims to encourage dialogue and accountability between local communities and their health boards. The annual review for NHSGGC was held on 20 August 2015 and was hosted by representatives from the Board including the Chief Executive and led by the Chair. There was an open session where members of the public could attend to ask questions of the Chief Executive and the Board.
- 115.** Members of the public can also attend meetings of the Board and have ready access to Board papers on the internet. The Board papers provide comprehensive information on all aspects of performance including waiting times and access targets, and measures being taken to address them. Minutes to all committee meetings are included as part of the Board papers.
- 116.** The Board's website was redesigned last year and includes useful information on how to access services and general information. It includes details of Board members and has a register of members' interests. An on-line register of interests for all Board staff was also re-developed and is available on the staff intranet. We did however note that the Board online register of interests was not fully up to date and that some of the linkages in the search function did not lead to the most up to date information. It is essential that the website is regularly reviewed, maintained effectively and kept up to date in order to ensure access to information.

- 117.** Whilst we concluded that overall the Board is open and transparent we note some committees (e.g. Acute Services, Audit and Staff Governance) are held in private in accordance with the Board's standing orders. There may be scope for extending openness and transparency through, for example, publishing agendas and papers from other meetings, holding meetings in public, broadcasting meetings or providing recordings of meetings on the website.

Freedom of Information (FOI) requests

- 118.** NHSGGC completed 90% of FOI requests within the 20 day statutory time limit, compared to the target of 90%, for 2015/16. The Head of Board Administration is currently finalising the Freedom of Information Annual Report for 2015/16 which will be submitted to the Board in August 2016. We have no significant concerns about the procedures followed by the Board in processing FOI requests.

Update on eESS project

- 119.** The implementation of the new NHS Scotland eESS (HR system) has been further delayed this year and the system is still not being used by the Board. NHSGGC is the host Board for this project and it receives all funding on behalf of all NHS Scotland health Boards. Expenditure in 2015/16 was £1.7m relating to the eESS project. The costs to date for the IT project as at March 2016 (from 2008/09) total £8.7m.

120. Officers have advised that the continued delay is due to problems with the interface between eESS and ePayroll. The project is now over 2½ years behind schedule. A working group of Chief Executives is taking this project forward.

Update on Vale of Leven Inquiry

121. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of C.difficile at the Vale of Leven Hospital was published in November 2014. Following publication of the report NHSGGC were required to carry out a self-assessment of progress against the 65 recommendations directed at health Boards.

122. During 2015/16 the Medical Director reported regular progress updates to the ASC against the recommendations. The Board also formed a Short Life Working Group (SLWG) to review ongoing progress. At the ASC meeting in May 2016, it was reported that 62 of the 65 recommendations falling to NHS Boards are considered complete and 3 have related ongoing activity to mainstream work across the organisation. A final report is due to be submitted to the ASC and the Board by July 2016.

Review of Beatson Cancer Centre

123. In October 2015 Healthcare Improvement Scotland (HIS) published a report of its review of the Beatson West of Scotland Cancer Centre (BWoSCC or Beatson). This followed concerns raised with

the General Medical Council by medical staff, which related to proposals for clinical support for the continuing activity and case mix managed in the oncology and blood cancer services provided by the BWoSCC on the Gartnavel General Hospital campus.

124. HIS raised a number of points in their report, recommending that NHSGGC agree a new model of care for seriously ill patients and put in place governance arrangements that regularly monitor the effectiveness of the implementation of the model of care. In addition, NHSGGC should take urgent action to restore and rebuild working relationships and respect between consultants at the Beatson and the NHSGGC management team.

125. The Board held a stakeholder event on 30 November 2015 involving clinicians from a range of specialties. The purpose of the meeting was to consider the data and learning to date to help inform the development of a robust and sustainable solution to support the BWoSCC, recognising that the current On Call Anaesthetic solution was not viable in the long term. Robust Clinical Governance arrangements have been established to provide assurance of safe care. The latest progress report on the recommendations was provided to the ASC in May 2016. This set out that the Board has established the BWoSCC Future Steering Group (and five sub groups) to address the recommendations and to agree a sustainable Vision for the BWoSCC, examining short, medium and long terms strategies. The Medical Director will

continue to report progress against the HIS recommendations to the ASC going forward.

Healthcare Associated Infection (HAI)

- 126.** The Healthcare Environment Inspectorate (HEI) process provides assurance to the Board on the effectiveness of infection control. 5 HEI inspections of Safety and Cleanliness took place across NHSGGC in 2015/16 which resulted in 2 recommendations and 8 requirements. These outcomes were reported from inspections at Stobhill Hospital, Gartnavel General Hospital and Royal Alexandra Hospital. The Board is working to address all issues raised and actions have been put in place.
- 127.** We conclude that the Board takes all independent reports and clinical governance matters very seriously and ensures that action plans are put in place with agreed timescales.

Integration of health and social care

- 128.** The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
- 129.** The integration of health and social care services straddles both the local government and health sectors but only covers some of their functions. This is a change to the delivery of health and social care of considerable scale and complexity.

- 130.** Audit Scotland published the first of a series of reports on the integration agenda in December 2015. This report, entitled Health and Social Care Integration, states that stakeholders have done well to get systems in place for integration, but that much work remains. The report outlines key issues that require to be addressed if the reforms are to be successful in improving outcomes for people. These are summarised in the extract below.

Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for Board members and staff. There is a risk that this could hamper the ability of an Integration Joint Board (IJB) to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, IJB members need training and development to help them fulfil their role.

IJBs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IJBs need to set out clearly:

- the resources, such as funding and skills, that they need
- what success will look like
- how they will monitor and publicly report on the impact of their plans.

NHS Boards and councils must work with IJBs to agree budgets for the new IJBs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IJBs should be clear about how they will use resources to integrate services and improve outcomes.

131. Three of six Health and Social Care Partnerships (HSCPs) became operational in 2015/16: West Dunbartonshire, East Dunbartonshire, and East Renfrewshire from July, September and October respectively. The remaining three, Glasgow City, Renfrewshire and Inverclyde, had functions delegated to them as from the 1 April 2016.

132. Apart from the Chief Officers, who are employees of their respective HSCPs, all other staff delivering healthcare functions delegated to HSCPs remain employees of the Board, and as such they are subject to the same clinical and corporate governance arrangements already in place. The Board has worked with the six local authorities to establish corporate governance arrangements within IJBs. This included terms of reference for IJB audit committees and assistance in establishing internal audit functions. It is important that the Board continues to work with councils to develop sound governance procedures, that these are implemented by IJBs, and that they support effective scrutiny of the resources delegated to the HSCPs.

2020 Vision

133. The Scottish Government's vision is that by 2020 everyone will live longer, healthier lives at home or in a homely setting. Audit Scotland published its annual overview report, "[NHS in Scotland 2015](#)", in October 2015. It found that the pace of change needs to increase if the 2020 Vision is to be achieved. The report

recognised the importance of the Scottish Government and NHS Boards in ensuring that changes are underpinned by good long-term financial and workforce planning. The report also recognised the need to consider the implications for performance targets and standards and the NHS estate, as well as ongoing initiatives and reform programmes. By doing so, the report concluded, the Scottish Government and Boards will gain a better understanding of the nature, scale and impact of changes required.

134. In August 2015 the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on improving the health of the population and on the future of health and social care. It is envisaged that the national conversation will be used to influence a programme of work to drive greater progress towards the 2020 vision and any necessary changes over the next 10 to 15 years. This is a clear signal from the Scottish Government that it intends to promote faster progress through NHS Boards.

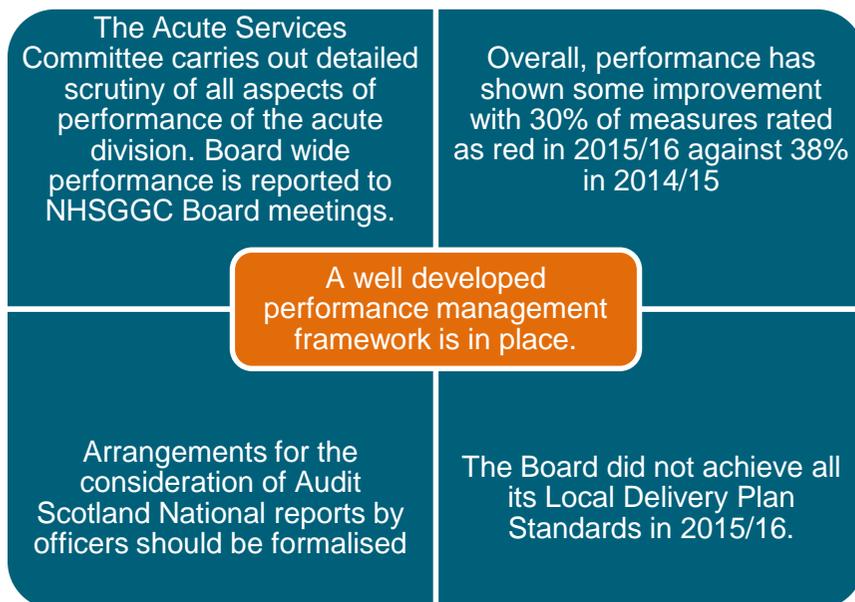
Outlook

135. NHSGGC faces continuing challenges on a number of fronts including mounting financial challenges, exacting performance targets, health and social care integration and delivering the Scottish Government's aim of having people living longer and healthier lives at home or in a homely setting (i.e. the 2020 Vision). NHSGGC will use the Clinical Strategy and consultation responses as the basis for engagement for further consultation on specific

change proposals. This work will aim to achieve the objectives of the 2020 Vision.

136. Sustaining robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders including patients, clinicians, the public, staff, executive and non-executive directors and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.
137. Health and social care integration is an important element in supporting the delivery of the Scottish 2020 Vision. The NHS Board and council partners will have to work hard to secure improved delivery of health and social care services now that the new structures are in place. This is an important strand of the Scottish Government's reform agenda.

Best Value



138. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

139. Best Value (BV) arrangements are part of business as usual within the Board. They are embedded in its planning processes, governance arrangements and its performance management and quality improvement frameworks.

140. The Board's Governance Statement includes a review by the Accountable Officer of the system of internal control. This is informed by assurance statements from executive managers and by internal and external audit reports.
141. The audit committee also receives a report from the Financial Governance and Audit Manager on the Review of the System of Internal Control. This report outlines the Board's commitment to best value and provides some evidence as to how best value is being delivered.
142. Overall, we concluded that the Board has well-developed arrangements for securing BV and continuous improvement.

Shared services

143. The financial challenges facing the health service in Scotland are well documented. To meet these challenges and address the Scottish Government's 2020 Vision, sharing services has been given a new impetus. A Guiding Coalition comprising Board chairs, chief executives and SGHSCD was formed in 2015 and has been tasked with identifying the potential for further sharing of services.

Performance management

144. The performance of NHSGGC is monitored by the SGHSCD against a number of Local Delivery Plan Standards which support

the delivery of the Scottish Government's national performance framework. These targets and their trajectories (plans) are set out in the Board's Local Delivery Plan (LDP). As noted previously the 2016/17 LDP will be agreed by the Board in June 2016.

145. Previously performance against Board wide targets was reported to the Quality and Performance Committee (QPC). As noted above, this committee was wound up in June 2015 and the Acute Services Committee (ASC) was set up with a narrower focus.
146. Detailed scrutiny of performance within the acute division takes place at the ASC where progress against targets is reviewed and discussed. The measures reported include LDP standards, critical health and social care indicators and local key performance indicators. The performance reports include a single scorecard showing all measures, detailed sections on 5 strategic priorities, and exception reports for all performance measures rated as red.
147. Scrutiny of relevant health and social care standards and targets is undertaken at each IJB with oversight from the Board.
148. Since August 2015, performance against Board wide LDP Standards and other local standards is presented to each meeting of the Board in the form of a balanced scorecard. Additionally, the Board's overall performance is discussed at the Annual Review meeting referred to earlier.
149. Similarly, financial reports are submitted to each meeting of the Board and the ASC. These reports detail the current and projected

outturn position and remedial actions being taken to address and mitigate risks.

150. We concluded that the Board had a well established performance management framework in place during 2015/16, supported by good performance monitoring.

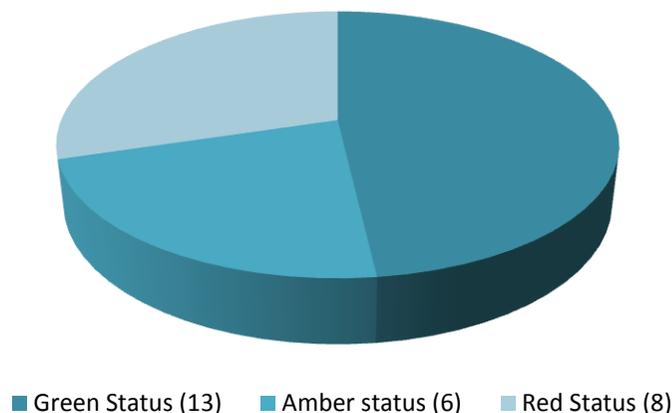
Overview of performance targets in 2015/16

151. The performance report presented to the May 2016 ASC detailed performance against 37 separate measures. Of these 27 were given a performance rating; 7 were classed as grey as there was no trajectory to measure performance against and 3 were classed as narrative measures. The ratings given are green, amber and red, where:

- Green means meeting or better than trajectory
- Amber means within 5% of trajectory
- Red means out-with 5% of meeting trajectory

Performance for the 27 measures given a rating is summarised in the following diagram.

Performance measures May 2016



- 152.** Those LDP standards and indicators currently being met include: the 18 week referral to treatment, CDiff infections, IVF treatment within 12 months, access to antenatal care and alcohol brief interventions.
- 153.** In some areas performance is slightly behind target (amber status) including: the percentage of accident and emergency waits less than four hours, cancer treatments and 12 week treatment time guarantee.
- 154.** Areas of performance which fell short of targets by over 5% (red status) include: delayed discharge over 14 days, MRSA/ MSSA Bacteraemia, sickness absence rate, early diagnosis in first stage

of cancer and suspicion of cancer referrals (62 days). Areas of particular interest or concern include:

- 155. Unscheduled care.** A&E waiting time performance against the 4 hour target of 95% was 90.6% as at March 2016 which is a slight improvement from the same period in 2015 when it was 88.5%. Performance has fluctuated over the year, and was as low as 78% in June 2015 during the migration to the new QEUH, and the Board has reported missing the 95% weekly target regularly.
- 156. Sickness absence.** The level of sickness absence continues to exceed the 4% target. For the acute division, as at March 2016 the level of absence was 6% against 5.9% for the same period in 2014/15. Board wide, the figure as at January 2016 was 5.36% against 5.3% for the same period in 2014/15. The Board have reported a level of between 5-6% overall throughout the year, but there have been rates as high as 20% in Acute locations e.g. the QEUH campus. We issued a separate report in May 2016 on agency staff, nurse bank staff and sickness absence.
- 157. Delayed Discharge.** As at March 2016, there were 38 patients delayed over 14 days which is in excess of the target of 0. However this is a marked improvement from the same period in 2014/15 when there were 70 patients delayed by over 14 days. Performance has been variable throughout the year. The Board has tried to address the issues in several ways including placing delayed patients in care homes and placing a specialist team in the QEUH to improve the speed of discharge.

158. Suspicion of cancer referrals. As at March 2016 performance against the 62 day target was 85% against a target of 95%. This is a deterioration from the same period in 2014/15 when performance was 91.7%. Explanations for performance being under target vary for the different types of cancer. For example, for breast cancer unplanned absences have impacted achievement of the target but this is felt to be a short term issue.

Local performance audit reports

159. As noted previously, our Annual Audit Plan referred to the financial sustainability risk of increasing agency costs. In addition, this also presents a workforce planning risk about the level of vacancies and agency locums which could affect the quality and efficiency of the service. Audit Scotland published a report on *Scotland's Public Sector Workforce* in November 2013. We carried out local follow up work to review NHSGGC's workforce planning arrangements in April 2016, based on the recommendations in the 2013 national report.

160. Overall we found that NHSGGC has a robust workforce plan and good governance arrangements in place. We identified several areas of good practice promoted by NHSGGC, including good governance structures to support local workforce leads and consultation with senior management and other key stakeholders. Other good practice includes providing a set methodology for local service workforce plans to follow. However, we identified some

areas of potential improvement and agreed these with management. These include:

- Development of Health and Social Care Partnership (HSCP) workforce plans: some HSCP plans are in draft, others are still to be completed due to the timing of their set up. NHSGGC workforce advisory groups should continue to monitor and support the development of HSCP plans.
- Succession planning: The Board offers a range of Executive and Leadership Development events managed by the organisational development team and learning and education team. However, there is little mention of succession planning in the Board's organisation wide workforce plan, with focus only on acute operational staff and focuses on short to medium term only. Succession planning should be considered for management positions across each of the Board's directorates over the short, medium and long term and incorporated into the workforce plan. We consider the absence of succession planning to be of particular concern in relation to the Finance Department.
- Use of agency staff: The workforce plan does not address the issue of the increasing use of agency staff and how the Board plans to deal with workforce vacancies. Discussions should be held with the Recruitment Section to potentially incorporate action plans into the workforce plan.
- Scenario planning: NHSGGC no longer use scenario planning as workforce leads found that it focussed primarily on the

financial aspect. The Board should consider re-visiting the use of scenario planning to identify aspects of the organisation which could benefit from this approach. Where uncertainty remains when creating their plans, Audit Scotland's good practice guide advises to use scenario planning to help model and plan for different situations.

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National performance audit reports

- 161.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Board. These are outlined in [appendix III](#) accompanying this report.
- 162.** We have previously recommended that a formal process be introduced to ensure that Audit Scotland national reports are considered by officers. In 2015/16 a number of Audit Scotland national reports were presented to the audit committee and, for some reports, members of the Audit Scotland Performance Audit and Best Value team were present at the audit committee to discuss findings.
- 163.** The response and follow-up to the national reports, however, is unclear. Some reports have been presented by Audit Scotland and officers have not presented their responses. For example for the NHS in Scotland 2015 report presented to the December Audit

Committee, officers advised an action plan was being formulated to address the issues raised in the report and that a checklist included in the report had been circulated to non-executive members. However, there has been no further follow-up of this at the audit committee so it is unclear what specific actions were taken.

- 164.** Going forward, we recommend that officers introduce a more formal process to ensure Audit Scotland national reports are considered by officers and the actions taken are reported back to the Audit Committee.

Equalities

- 165.** The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the equality outcomes it has set.
- 166.** NHSGGC produced a report covering the period 2013-15 in April 2015. A monitoring report for 2015/16 was produced in April 2016. In addition an action plan for the period 2016-20 was produced in April 2016 detailing actions the Board plans to take to tackle inequalities. Progress against the plan will be reported in 2018.

Outlook

167. Audit Scotland in its annual overview of the NHS in Scotland (October 2015) highlighted that pressures on NHS Boards have intensified over the past year as has the urgency for fundamental changes such as introducing new ways to deliver healthcare and developing a national approach to workforce planning. The strong focus on performance targets may not be sustainable when combined with the additional pressures of increasing demand and the overall NHS budget static or decreasing in real terms. The effort that NHS Boards are making to meet challenging financial and performance targets each year makes it more difficult for them to focus on the long-term planning required to achieve the Scottish Government's 2020 Vision.
168. In common with other NHS Boards, NHSGGC faces challenges in meeting its LDP and other targets. Whilst the Board has put in place a range of measures to improve performance, areas of significant challenge remain due increasing demand for improved services arising from changing demographics, lifestyles, health inequalities and increasing public expectations. The Board will need to continue to redesign services and improve quality, while also making services more efficient and sustainable. With the creation of the 6 IJBs it will be important that the Board work closely with partners to ensure performance targets are achieved.

169. The Cabinet Secretary has recently announced that a review of national NHS targets will be undertaken. An expert group will be set up to lead the review, working with staff, stakeholders, social care and clinical bodies, and will examine a range of national targets to ensure they are continuing to deliver better outcomes for patients as well as making best use of NHS resources. It will also look at how target setting aligns with the Scottish Government's strategy for the future direction of NHS and social care services, in the context of the existing outcomes and indicators for health and social care integration.

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Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Financial statement risks		
<p>Financial balance and sustainability NHSGGC faces challenges in dealing with a range of cost pressures during 2015/16.</p> <p>Risk There is a risk that the financial target is not achieved, leading to a year end deficit.</p>	<ul style="list-style-type: none"> • We monitored updates to the financial plan and reviewed financial monitoring reports to the Board and the Acute Services Committee. • We reviewed monthly financial returns to SGHSCD. • We reviewed the controls relating to agency costs, nurse bank costs and sickness absence. • We tested a sample of transactions taken from both pre- and post-year end to confirm expenditure and income had been accounted for in the correct financial year. • Reviewed the impact of the QEUH on revenue expenditure in 2015/16. 	<ul style="list-style-type: none"> • The Board has a year end underspend of £0.2m against its core RRL. • Non-core expenditure of £4m to match funding was assessed as non-compliant. This was subject to later amendment. • We conclude on financial sustainability within this report. There are serious risks to the future sustainability of NHSGGC. • Our cut-off testing did not identify any significant issues. • Our review of agency, nurse bank and sickness identified a number of issues which were reported to management in May 2016.

Audit Risk	Assurance procedure	Results and conclusions
<p>Staffing</p> <p>Agency costs and use of the nurse staff bank have increased by £4.4m when compared to the same time last year. By attempting to achieve certain performance targets, staff costs have increased particularly in the new QEUH site.</p> <p>Risk</p> <p>There is a risk that reliance on agency staff may impact on the Board's plans to achieve sustainable services and may not represent good value for money.</p>	<ul style="list-style-type: none"> • Reviewed the controls relating to agency costs, nurse bank costs and sickness absence. • Monitored financial and performance reports. • Discussed the ongoing financial pressures surrounding the QEUH with key finance staff. • Reviewed exit costs. • Followed up on Audit Scotland's national report Scotland's Public Sector Workforce issued in November 2013. 	<ul style="list-style-type: none"> • Our review of agency, nurse bank and sickness identified a number of issues which were reported to management in May 2016. • We followed up our 2014/15 management letter regarding settlement agreements and also reviewed the exit costs disclosed within the financial statements. No significant issues were identified. • Our follow up on <i>Scotland's Public Sector Workforce</i> concluded that overall NHSGGC has a robust workforce plan and good governance arrangements in place. We identified several areas of good practice and we also identified some areas of potential improvement. Further details are included above.

Audit Risk	Assurance procedure	Results and conclusions
<p>Non current assets</p> <p>As part of the move to the new South Glasgow hospitals, it was anticipated that the Yorkhill site would remain in use until September 2015. However, in order to manage the transfer of services, it continues to be in use. £75m of assets under construction should become operational in 2015/16.</p> <p>Risk</p> <p>There is a risk that the financial statements do not reflect the true asset values.</p>	<ul style="list-style-type: none"> • Early discussion with management regarding accounting entries in this area. • Reviewed year end property valuations and assessed adequacy of rolling programme of valuation. • Reviewed accounting entries for non-current assets. • We tested a sample of equipment assets transferred from closing sites to the new hospital. • We tested a sample of equipment assets currently categorised as assets under construction. 	<ul style="list-style-type: none"> • We reviewed PPE as part of our interim work. While we concluded that no significant control weaknesses, we identified a number of areas for improvement which would strengthen the control environment. However our year end financial statements audit identified some areas of concern and these are referred to earlier in this report. • We reviewed the year end property valuations and its application to the Board's property, plant and equipment. A number of matters arising were raised with officers in relation to surplus assets and assets held for sale. • The rolling programme of revaluations was reviewed as part of our interim work and it was found that no formal plan is in place. • We verified a number of assets transferred between old sites and the QEUH and did not identify any issues. • Our testing of assets under construction did not identify any significant issues.

Audit Risk	Assurance procedure	Results and conclusions
<p>Risk of management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk</p> <p>There is a risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • We tested the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. • We reviewed the accounting estimates applied for bias. • We evaluated whether any significant transactions were outside the normal course of business. 	<ul style="list-style-type: none"> • We substantively tested a sample of journal entries at year end and agreed to source documentation. There were no issues to report. • Reviewed accounting policies in the financial statements. Policies were deemed appropriate. • Our testing focused on the regularity and cut-off assertions. There were no matters to report. • The SGHSCD provided additional non-core funding (£4m). Our testing identified expenditure which did not comply with the definition of non-core. This was later amended which resulted in the issue of a very late revised allocation letter from SGHSCD. • We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year.

Audit Risk	Assurance procedure	Results and conclusions
<p>Risk of material misstatement due to fraud in revenue recognition</p> <p>NHSGGC receives a significant amount of income in addition to Scottish Government funding, as set out in the Statement of Comprehensive Net Expenditure. Particular areas for concern include: FHS income, cash receipts, non-mainstream income generating activities.</p> <p>ISA 240 presumes an inherent risk of fraud where income streams are significant.</p> <p>Risk</p> <p>The size and diversity of income streams flowing to the Board means that there is an inherent risk that income could be materially misstated.</p>	<ul style="list-style-type: none"> • Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income. • We evaluated the effectiveness of systems of internal control for income recognition and recording and undertook compliance testing of internal controls associated with income recognition and recording. • We also undertook substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements. • Monitoring of frauds and false exemptions reported and examination of the NHS National Services service auditor report covering Practitioner Services. • Review of controls in place for the avoidance and potential recovery of overseas debt. 	<ul style="list-style-type: none"> • Sample testing of unusual items did not identify any suspicious transactions and reasonable explanations were given for identified variances • We assessed the controls in place for income recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified and we were able to conclude that controls were operating effectively. • The monitoring and detection arrangements for fraud in relation to FHS were reviewed and were found to be appropriate and operating effectively. • Our review of the controls in place relating to overseas debt concluded that adequate controls are in place.

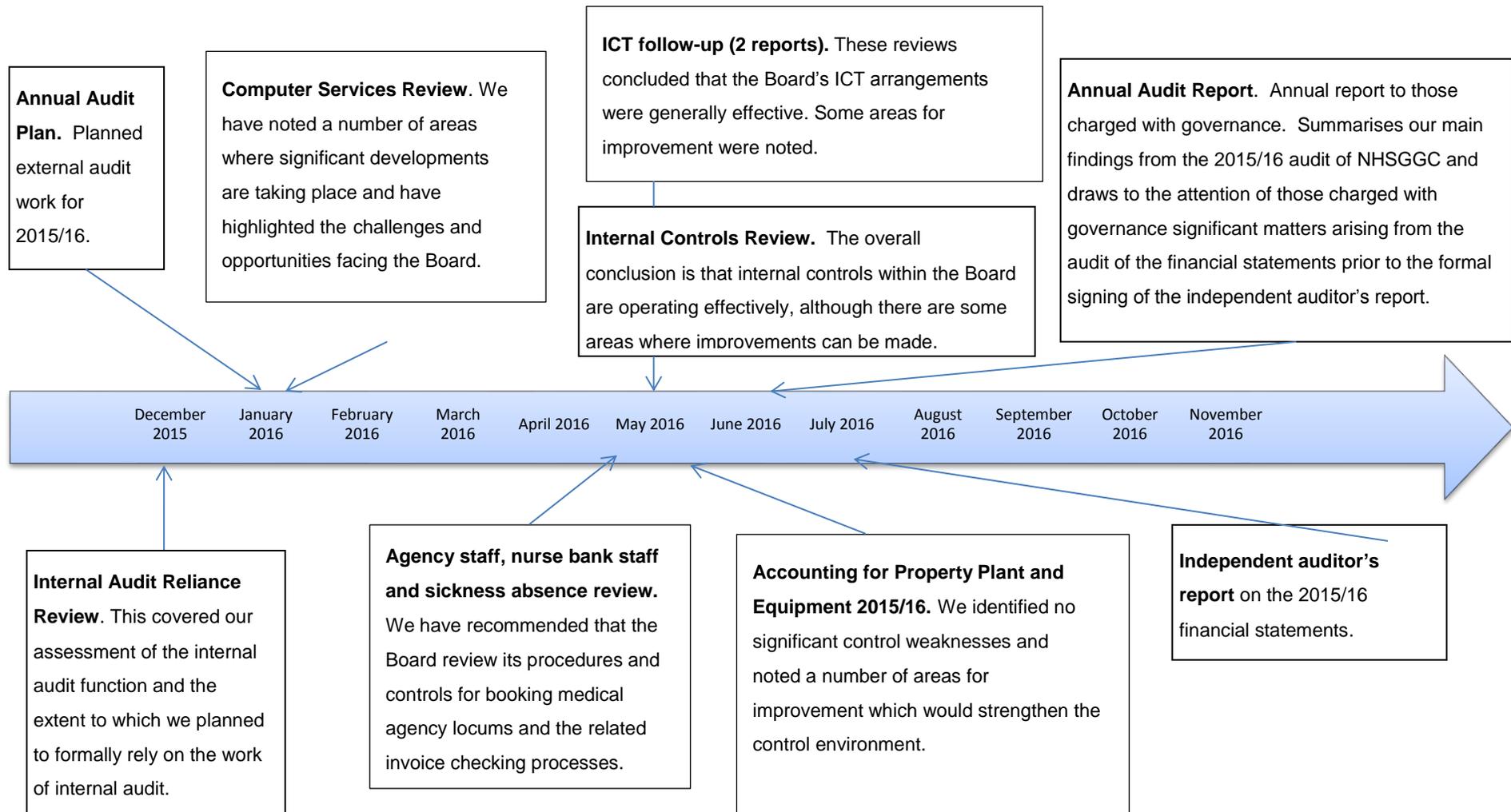
Audit Risk	Assurance procedure	Results and conclusions
<p>Accruals</p> <p>In previous years there have been challenges obtaining adequate evidence to support year end accruals. A material financial misstatement may occur if accruals are raised inappropriately.</p> <p>Risk</p> <p>There is increased risk of understatement of accruals in 2015/16 due to the projected year end position.</p>	<ul style="list-style-type: none"> • We had early discussions with officers in relation to the substance of transactions. • We substantively tested a sample of accruals at year end. • We tested a sample of post year end payments of goods and services and conducted an analytical review. 	<ul style="list-style-type: none"> • While our testing identified that the evidence provided to audit had improved, we again found a number of accruals which we considered to be invalid, either due to accruing for goods/services not received in the reporting year, or where the Board had accrued for unspent 2015/16 budget for a number of programmes. This resulted in a number of unadjusted errors which were agreed with management. • We carried out a detailed variance analysis and used this to inform our sample selection for our year end sample testing. • We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year. No matters were identified. • We performed substantive testing on a sample of transactions from each material category of income and expenditure with reference to supporting documentation to confirm that they were accounted for in the correct accounting period. No matters were raised.

Audit Risk	Assurance procedure	Results and conclusions
<p>Integrated Joint Boards and the Annual Report and Accounts for NHSGGC</p> <p>To date, three IJBs have commenced service delivery and as such will have material transactions in their accounts. As a result the NHSGGC Annual Report and Accounts will be required to include relevant financial and governance disclosures regarding the IJBs for 2015/16.</p> <p>Risk</p> <p>There is a risk that the draft accounts may be late, incorrectly stated or not appropriately disclosed.</p>	<ul style="list-style-type: none"> • We shall seek assurances from the appointed external auditor of each IJB and liaise as appropriate. • We shall review compliance with the guidance to be issued by the NHS Technical Accounting Group. • Specific group accounts testing will assess the consolidation transactions. • Meet with IJB Chief Officers and finance officers to assess progress across the year. • Follow up the recommendations of our national report which apply to the 2015/16 financial statements 	<ul style="list-style-type: none"> • We have received assurances from the appointed auditors of the three IJBs who have commenced service delivery • We have reviewed compliance with guidance and completed specific testing. No matters raised. Further detail is included above. • As auditors were appointed for the 3 IJBs who became operational we will rely on the assurances provided by the auditors and therefore meetings with the chief officers were not necessary.

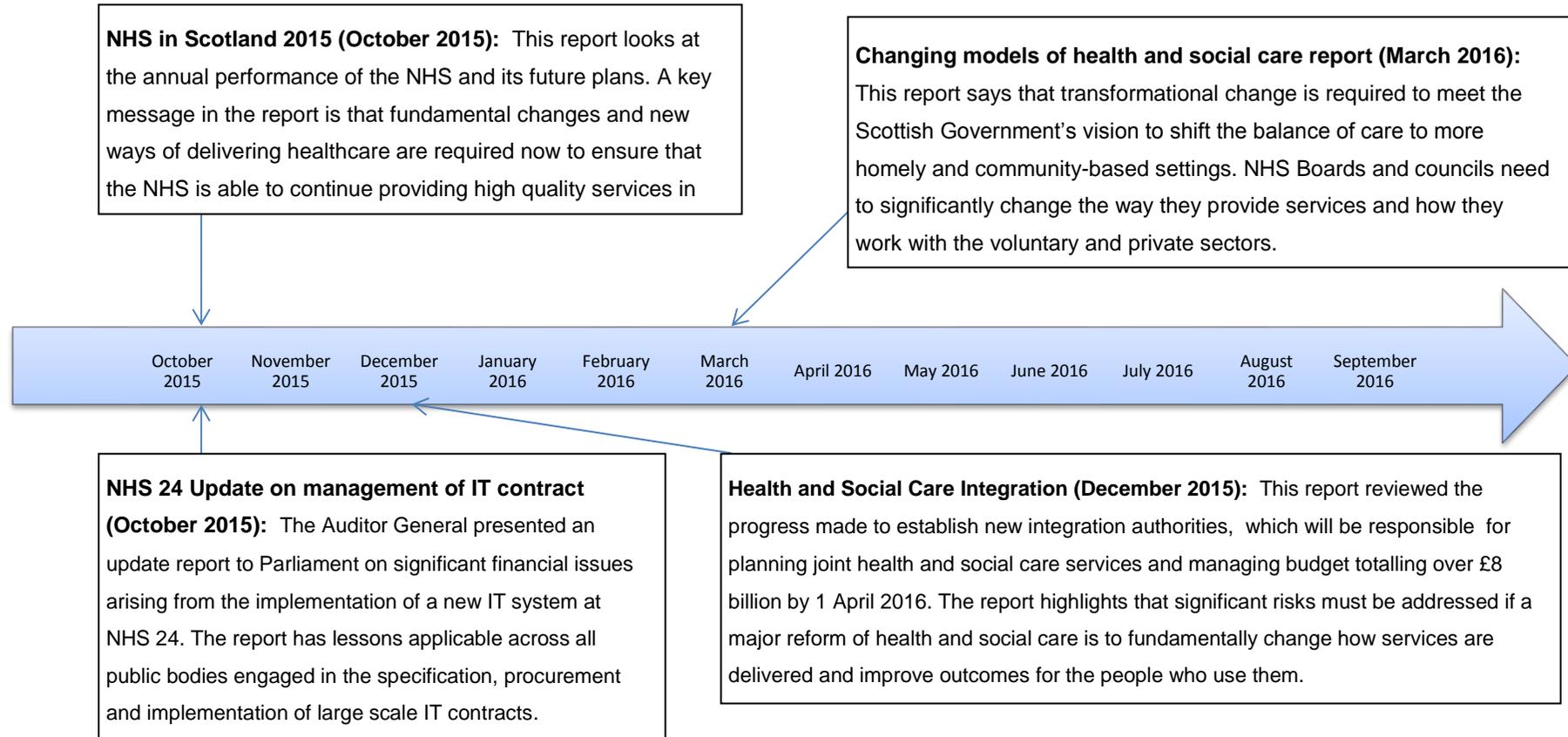
Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor’s wider responsibility under the Code of Audit Practice		
<p>Information technology - cyber attacks</p> <p>Over the past 12 months several Scottish public organisations have been victims of cyber attacks and related activities. The threat from cyber attacks will continue to develop, potentially leading to reputational and financial harm.</p> <p>Risk</p> <p>There is a risk that Cyber attacks could disrupt the availability of critical patient systems as well as affect the Board’s financial systems.</p>	<ul style="list-style-type: none"> • Reviewed arrangements to prevent and respond to cyber attacks. • Finalised the review of aspects of ICT services. 	<ul style="list-style-type: none"> • The findings of our review of the arrangements relating to cyber attacks are included above. We found a number of areas for improvement including consideration of: the risk of cyber attack in the corporate risk register; the need for increased training; increased clarity over reporting arrangements and responsibilities; and more detailed assessment of the impact of any cyber attacks.

Audit Risk	Assurance procedure	Results and conclusions
<p>Health and social care integration</p> <p>The integration of health and social care services in Scotland requires to be implemented fully by 1 April 2016. Although 5 out of 6 Integrated Joint Boards have been established and good progress is being made, significant aspects of health and social care integration still require to be progressed.</p> <p>Risk</p> <p>There is a risk that NHSGGC and its six partners may not be fully prepared for the integration of health and social care. Financial pressures and political tensions could also adversely impact on the effectiveness of the move to full and effective implementation of health and social care integration.</p>	<ul style="list-style-type: none"> • Reviewed progress towards implementation by reviewing the reports presented to the Board. • Reviewed internal audit report on health and social care integration. 	<ul style="list-style-type: none"> • We have reported above that there have been delays in the process to include IJB transactions in the NHSGGC accounts. • Three IJBs were operational at 31 March 2016 and 3 came into operation on 01 April 2016. We have raised concerns that the process will need to be improved in 2016/17.

Appendix II: Summary of NHSGGC local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
1.	12	<p>Quality review</p> <p>The annual report (performance and accountability reports) submitted for audit review did not reflect the revised guidance. Management review of the accounts was not completed in advance of providing the draft accounts to audit.</p> <p>Risk. The audit is delayed due to the absence of management review.</p> <p>Recommendation. The timetable for completion of the financial statements should include an allowance for a management quality review of the unaudited financial statements prior to submitting the accounts for audit.</p>	<p>The delays in finalising the 2016/17 Financial Plan impacted on management time allocated to the quality review around the production of the draft financial statements.</p> <p>This will be resolved going forward.</p>	<p>Director of Finance</p> <p>31 March 2017</p>
2.	15, 31	<p>Consolidation of IJB accounts</p> <p>Arrangements to receive the IJB accounts together with related working papers in accordance with the health Board timescale were not effective.</p>	<p>This has been the first year of both the production and consolidation of the IJB accounts. Whilst the consolidation was performed late in the process, there were no audit issues identified.</p> <p>Due to the different financial reporting cycles the issue of consolidating IJB accounts will be</p>	<p>Director of Finance</p> <p>31 March 2017</p>

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		<p>Risk. The accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late. The audit opinion is modified if the accounts are incomplete.</p> <p>Recommendation. Arrangements should be agreed well in advance with the six IJBs to ensure the flow of information will accommodate the early sign off of NHSGGC accounts.</p>	challenging in 2017. However, we will work with each IJB, and Audit Scotland, to establish a timetable and delivery process which fits with NHSGGC's audit process.	
3.	Table 1	<p>Classification of expenditure</p> <p>The original classification of non-core expenditure was not compliant with SGHSCD guidance.</p> <p>Risk. There is a risk that core expenditure is overstated if non-compliant non core expenditure is transferred to core, resulting in a deficit against the RRL.</p> <p>Recommendation. Management should ensure that the classification of expenditure accords with SGHSCD guidance.</p>	Agreed.	Director of Finance 31 March 2017

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
4	Table 1	<p>Additional support from SGHSCD</p> <p>An additional £4m non-core allocation was received in January 2016. This allocation may have contributed towards the incorrect classification of costs in order to achieve financial balance.</p> <p>Risk. A modified audit opinion on the financial statements if SGHSCD guidance is not followed or a financial target not met.</p> <p>Recommendation. The Board should discuss the timing and type of specific allocations with the SGHSCD to enable better financial planning. This would minimise financial and reputational risk (if a modified opinion) to the Board.</p>	<p>The Board will discuss the timing and type of specific allocations with the SGHSCD.</p> <p>However, in-year allocations are a fundamental element of managing both the NHSGGC, and the wider Scottish, NHS financial performance. Following a review of the draft accounts, expenditure was reclassified correctly in the final accounts.</p>	<p>Director of Finance</p> <p>31 March 2017</p>
5	Table 1	<p>Accounting for property, plant and equipment</p> <p>It was not readily apparent that officers had reviewed assets on the asset disposal listing to ensure full compliance with IFRS13 and the NHS Capital Accounting Manual. The matters raised in this report in relation to compliance with guidance together with the findings from our interim review reflect an area of weakness within the accounting</p>	<p>The completion of the QUEH and corresponding site closures, together with our wider estates rationalisation programme, have resulted in movement in our fixed asset portfolio and resultant accounting treatment.</p> <p>We believe we have complied with all relevant IFRSs and NHS accounting manuals. However, we will review how we document our treatment</p>	<p>Director of Finance</p> <p>31 March 2017</p>

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		<p>and reporting systems for non-current assets.</p> <p>Risk. Non-current assets are not measured in accordance with guidance resulting in a material over or under statement in value.</p> <p>Recommendation. Management should review the processes and procedures for ensuring compliance with accounting guidance particularly in relation to capital accounting.</p>	and valuation methodology.	
6	Table 1	<p>Trades payables – accruals</p> <p>A number of projects were inappropriately accrued at the year end and resulted in a number of unadjusted errors.</p> <p>Risk. There is a risk that if expenditure is not accounted for in the correct accounting period, there is a loss of transparency in financial reporting. This has implications for subsequent resource allocation.</p> <p>Recommendation. The Board should continue to review its processes for accruing expenditure to ensure that only valid obligations are accrued.</p>	<p>Agreed.</p> <p>All adjustments were made in the final accounts.</p>	<p>Director of Finance</p> <p>Immediate</p>

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
7	Table 1	<p>Goods received not yet invoiced (GRNIs).</p> <p>We identified a number of GRNIs which referred to goods received in prior years. Officers advised us of a system processing fault which recorded an incorrect year of processing.</p> <p>Risk. There is a risk that expenditure is not accounted for in the correct accounting period resulting in a loss of transparency in financial reporting.</p> <p>Recommendation. Management should review the underlying systems and processes to ensure that only valid obligations are accrued.</p>	<p>Agreed.</p> <p>Whilst the amounts referred to were not material to the Accounts, this issue is under investigation and we remain confident of resolution in-year.</p>	<p>Director of Finance Immediate</p>
8	45	<p>Capital spend</p> <p>The original capital budget was underspent by 20%.</p> <p>Risk. Investment in the Board’s infrastructure is not maintained resulting in the deterioration or non-replacement of assets.</p> <p>Recommendation. The processes which underpin the capital planning process should be reviewed to ensure the timely utilisation of capital funding.</p>	<p>Agreed.</p> <p>This has already been implemented in terms of approach, key personnel and the overall governance process.</p>	<p>Achieved</p>

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
9	63	<p>Efficiency savings</p> <p>In year overspends against budget were significant. While the Board met its savings target for 2015/16, £11.5 million (19%) was on a non-recurrent basis.</p> <p>Risk. There is a risk that non-recurring savings will put pressure on future years' budgets and that the Board may fail to meet its financial targets in future</p> <p>Recommendation. The Board together with its partners and the SGHSCD should devise a plan to ensure affordable service delivery and quality patient care. Savings plans should be finalised.</p>	<p>Agreed.</p> <p>This issue has been reported to the Board and is covered in the 2016/17 Financial Plan.</p>	<p>Director of Finance</p> <p>30 September</p>
10	101	<p>Cyber attacks</p> <p>Cyber is viewed as one of the top threats to the UK. The Board should review its approach to this threat and consider the matters raised from our review.</p> <p>Risk. The threat of a cyber attack continues to increase. There is a risk the Board is not able to respond effectively.</p> <p>Recommendation. Management should</p>	<p>We have recently revised our Information Management governance arrangements and have an action plan to take the subject forward. We have subjected ourselves to an internal and external threat assessment- on both of these counts, there were no major causes for concerns identified.</p> <p>All of these recommendations will now feature in the action plan.</p>	<p>Director of Finance (in SIRO role)</p> <p>31 August 2016</p>

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		consider <ul style="list-style-type: none"> • whether the threat of cyber attack should be included within the corporate risk register • expanding information security awareness training • measuring the extent to which staff implement the knowledge gained • the classification of incidents • whether there would be any benefit in assessing the impact and cost on the Board's activities. 		
11	159, 160	<p>Workforce planning</p> <p>Workforce planning is well established within the Board. We identified a number of areas of improvement which have been communicated to management.</p> <p>Risk. The Board does not plan effectively for future staffing requirements.</p> <p>Recommendation. Management should:</p> <ul style="list-style-type: none"> • monitor and support the development of HSCP plans 	<p>The workforce agenda is extremely challenging for both NHSGGC and the wider NHS in Scotland.</p> <p>All of these recommendations are under consideration as part of our workforce planning process.</p>	<p>Director of HR</p> <p>30 September 2016</p>

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		<ul style="list-style-type: none"> • extend succession planning across all grades of staff • include plans for dealing with vacancies • consider the application of scenario planning. 		
12	168	<p>Performance against targets</p> <p>The Board did not achieve all its performance targets in 2015/16.</p> <p>Risk. There is a risk that in a climate of reducing funding and competing priorities, performance targets are not achieved or maintained.</p> <p>Recommendation. The Board should monitor investment designed to improve performance and determine whether specific areas / specialties require more detailed scrutiny or additional actions to be taken.</p>	<p>The Board report our performance targets to both our internal committees of governance and the Scottish Government. We are constantly striving to achieve all targets, including allocating funding and resources in the most optimal way.</p> <p>We have a number of reviews under way to examine the issue of target achievement, and these will likely result in a range of operational changes.</p>	<p>Chief Operating Officer</p> <p>31 December 2016</p>