

NHS Grampian

2016/17 Annual Audit Report



 AUDIT SCOTLAND

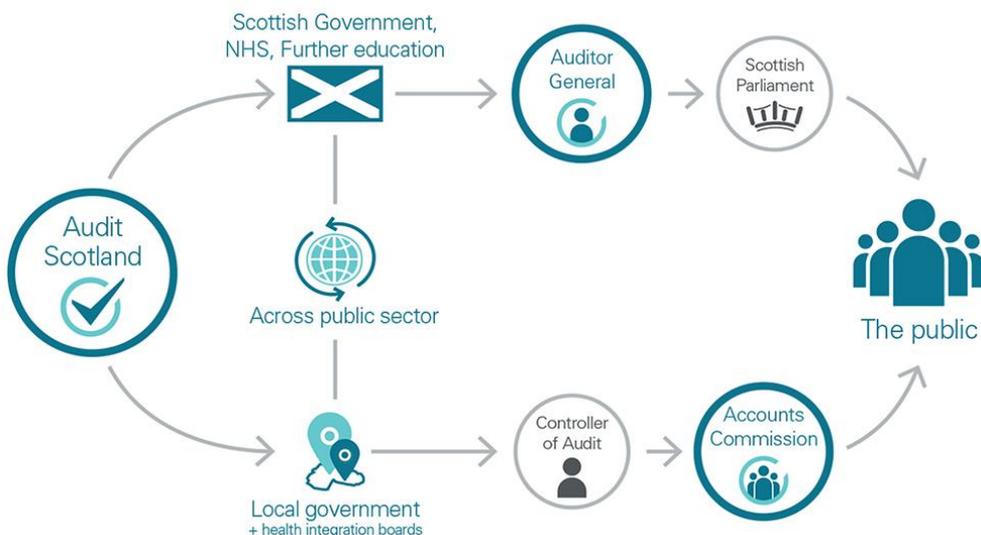
Prepared for the board of NHS Grampian and the Auditor General for Scotland

27 June 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2016/17 annual report and accounts

- 1 Our audit opinions were unqualified. These covered the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

Financial management

- 2 NHS Grampian has sound arrangements in place for managing its finances and the use of resources. It met all its financial targets for 2016/17 and achieved an underspend of £0.888m against its revenue resource this year which when added to the underspend last year of £0.143m gives a total surplus of £1.031m.
- 3 NHS Grampian achieved its savings target of £26.5m during the year. There is however an increasing dependence on non-recurring savings year on year.
- 4 The board has a significant infrastructure programme and while there are a number of planned disposals, with proceeds due to be re-invested in capital projects, there is currently less reliance on disposal income due to the ongoing downturn in the economy and the uncertainty this creates in the local property market.

Financial sustainability

- 5 While the board achieved financial balance in 2016/17, it continues to face an extremely challenging position.
- 6 Efficiency savings will be crucial to maintaining financial balance over the medium term. Efficiency savings of £28m are required to deliver a balanced financial position in 2017/18 of which £22m will be on a recurring and £6m on a non-recurring basis.
- 7 NHS Grampian has found it difficult to recruit staff for some time and relies on temporary or agency staff to fill gaps. The rising costs of temporary staff have added to the financial pressures facing the board.

Governance and transparency

- 8 NHS Grampian has appropriate governance arrangements in place that support decisions made by the board. There is however scope for the board to review the form and content of its finance and performance reports to ensure they are fit for purpose and inform robust and timely board decisions.

Value for money

- 9** While NHS Grampian has a good performance management framework in place, it continues to struggle to meet key national performance targets. Priority has currently been given to delivering the best service within the resources available to maintain financial balance.

Introduction

1. This report summarises the findings from our 2016/17 audit of Grampian Health Board, commonly known as NHS Grampian.
2. The scope of our audit was set out in our Annual Audit Plan presented to the December 2016 meeting of the Audit Committee. This report provides our findings from our:
 - audit of the annual report and accounts
 - consideration of the wider dimensions set out in the [Code of Audit Practice \(2016\)](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been the board's:
 - main financial systems and governance arrangements
 - 2016/17 annual report and accounts, and
 - a follow up review of the board's clinical governance arrangements.
4. NHS Grampian is responsible for preparing the annual report and accounts. It must also put systems in place to ensure appropriate governance, propriety

and regularity of arrangements that enable them to successfully deliver their objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.
6. As public sector auditors we give independent opinions on the board's annual report and accounts. We also review and report on the arrangements within NHS Grampian to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#).
8. This report raises matters from the audit of the annual report and accounts, risks and control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
9. Our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, management responses and target dates for implementation.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
12. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

We provided unqualified audit opinions on the annual report and accounts.

A high quality set of accounts was submitted for audit which were supported by good working papers.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the board on 27 June 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements
 - an unqualified opinion on regularity of expenditure and income
 - unqualified opinions on the remuneration and staff report, performance report and governance statement.
14. Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

15. We received the draft annual report and accounts on 15 May 2017, in line with our agreed audit timetable. In 2016/17, for the first time, the board's group accounts were required to include the financial results of the three Integration Joint Boards (IJB) within its area. Group accounts including this information were available for audit on 31 May 2017.
16. The working papers provided with the draft annual report and accounts were generally of a good standard and finance staff provided good support to the audit team which helped ensure the audit ran smoothly.
17. We consider that the accounts reflect good practice as set out in the Audit Scotland publication *'Improving the Quality of the NHS Annual Report and Accounts' (December 2014)*.

Risks of material misstatement

18. [Appendix 2](#) provides a description of the significant risks of material misstatement and wider dimension risks identified during the planning process which had the greatest effect on the overall audit approach. Included within the appendix is a summary of our audit responses in addressing these risks together with our conclusions.

Materiality

19. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

20. Our initial assessment of materiality for the accounts was carried out during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively.

21. On receipt of the accounts we updated our materiality calculations to reflect the figures in the draft accounts. These are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£12.4m
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.	£6.2m
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance all unadjusted misstatements in excess of the reporting threshold amount. This has been set at the lower level of 1% of overall materiality or £100k.	£100k

Source: Audit Scotland

How we evaluate misstatements

22. Misstatements identified during the audit which were amended in the accounts reduced Net Assets by £3.4m, Net Operating Costs by £0.5m and the Revaluation Reserve by £5.8m. In addition, the General Fund was increased by £1.9m. The key items related to non-current assets which have been explained in Exhibit 3.

23. A number of further adjustments were identified during the course of our audit and while it is our responsibility to request that all misstatements are corrected, the financial decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the misstatements set out in Appendix 3 as the amounts are not considered material in the context of the accounts. Had the accounts

been adjusted, the net impact would have been to decrease the Net Operating Costs by £3.1m, with a corresponding increase in Net Assets.

24. Our audit also identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts. In addition, ongoing discussion highlighted areas within the performance and accountability reports which could be strengthened and these were subsequently expanded and amended in line with guidance.

Significant findings

25. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Accounting for backlog maintenance</p> <p>A major capital project is the board's backlog maintenance project at Aberdeen Royal Infirmary. The amount completed and capitalised for Phase 2 in the year was understated as it did not reflect the full value provided by the District Valuer when relevant assets were transferred from assets under construction to operational assets.</p> <p>An interim valuation is carried out by the District Valuer in respect of backlog maintenance assets. In the past, adjustments had been made to reflect any movement in expenditure between the date of the valuation and the year end. This approach was incorrect as the valuation amount provided by the District Valuer should have been the amount used.</p>	<p>The board reviewed its methodology and made the required adjustments to the financial statements which increased the net book value of the assets and reduced the impairment charged to the Statement of Comprehensive Net Expenditure (SoCNE) funded through Annually Managed Expenditure (AME) by £4.1m. No prior year adjustment was considered necessary.</p> <p>The board also refreshed its accounting policy on asset valuation in respect of backlog maintenance to clarify operational practice and ensure the approach is properly explained in the accounts given the scale of the project.</p>
<p>2. Impairment of existing assets</p> <p>Inverurie and Foresterhill health centres are being replaced through Hub North Scotland as Design, Build, Finance and Maintain projects. In addition, the board is in the early stages of developing the Baird and Anchor hospital projects. These projects involve new build which require demolition of existing buildings.</p> <p>Where there is evidence that the current service potential of an existing asset has reduced in advance of future events such as future planned sale or replacements, FReM requires that relevant assets should be impaired. The draft accounts did not reflect the necessary impairment to the value of existing operational assets.</p>	<p>Adjustments were made to impair the assets to their current service potential that is expected to be foregone. This resulted in additional expenditure (also funded by AME) and a decrease in the net book value of assets of £3.6m.</p>

Issue	Resolution
<p>3. Disposal of Royal Cornhill Hospital site (Phase 1)</p> <p>An agreement was reached with a contractor for the disposal of a site with the proceeds to be received in two instalments, in April 2016 and April 2017. While conditions were attached to the sale to safeguard the value of the asset and the collectability of the debt, the risks and rewards of ownership of the asset transferred to the contractor at 1 April 2016. The transaction was reflected in the draft accounts by removing half the value of the relevant asset and recognising half of the resultant gain on the sale on the basis that only 50% of the proceeds were received in 2016/17. Having considered International Accounting Standard 18: Revenue (IAS18), the entire transaction should have been recognised in the 2016/17 accounts including removal of the asset and inclusion of a debtor.</p>	<p>Due to the economic climate in Aberdeen, the board had previously experienced difficulty in confirming a sale when another developer withdrew from negotiations. The main objective of the board was to protect the value of the site/sale proceeds as any proceeds were due to be reinvested in the board's infrastructure programme. The arrangement to pay in two instalments was part of the deal agreed with the developer and also informed the board's capital planning process in terms of timing for use of the proceeds. The board recognise that their actions do not comply with the requirements of IAS18 but do not propose to amend the accounts. The misstatement falls below our performance materiality which was set at £6.2m. We therefore concur that the matter is included in the schedule of unadjusted misstatements at Appendix 3.</p>
<p>4. Difference in the revaluation reserve balance</p> <p>In examining the opening entries, we identified a difference on the revaluation reserve of £7.3m between the balance in the asset register compared with the balance in the financial ledger. A reconciliation had not been performed between the two balances.</p>	<p>The finance team investigated the difference and found that it was mainly due to the approach taken by NHS Grampian when accounting for the disposal of assets which involve components. For example, when a building is revalued, the various elements (components) such as roof, wall, stairs, etc. are aggregated to determine the net impact of the change in value which is recorded in the financial ledger. The asset register however, treats each element as an asset in its own right so that the correct depreciation rate is charged. A reconciliation has now been provided and we are satisfied that the reconciling items are appropriate timing differences.</p> <p>While investigating the matter, the finance team also found prior year errors of £2m which were adjusted in 2016/17. These relate mainly to an erroneous transfer between the revaluation reserve and the general fund in 2014/15 and the failure to write back prior year impairments when assets were subsequently revalued upwards. The net effect of these adjustments was to increase the balance on the revaluation reserve and reduce the general fund balance.</p> <p>Action Plan (Appendix 1, point 1)</p>
<p>5. Statement of Comprehensive Net Expenditure (SoCNE) - reclassification between expenditure headings</p> <p>Expenditure related to the board's contribution to the central pool for clinical and other indemnity risks of £20.189m and salaried dental services costs of £7.792m were erroneously reported in Note 4 Hospital and Community Costs but should have been included in Note 7 Other Non Clinical Services and Note 5 Family Health Services respectively in the SoCNE.</p>	<p>Amendments were made to the revised financial statements.</p> <p>Action Plan (Appendix 1, point 2)</p>

Issue	Resolution
<p>While this is a classification matter rather than a misstatement, it would not have occurred had there been a complete mapping exercise between the financial ledger and the accounts. Certain codes are extracted for separate disclosure in the accounts and the remaining balance is included in the line for 'treatment in board area' per Note 4 Hospital and Community Health Services. A full mapping from the ledger to this balance would provide an audit trail to confirm that the right expenditure is included in the correct line in the accounts.</p>	
<p>6. Transactions – cut off errors</p> <p>Transactions totalling £1.3m relating to financial year 2017/18 were incorrectly posted on the electronic ordering system, PECOS as at 31 March 2017. The finance team were aware of the error but corrected it by posting a compensating debtor. This incorrectly overstated both debtors and creditors.</p>	<p>Amendments were made to the revised financial statements.</p> <p>The board should review its year-end instructions to emphasise the need to record transactions and balances in the correct financial year.</p> <p>Action Plan (Appendix 1, point 3)</p>
<p>7. Accruals working papers</p> <p>Our review identified several year end accruals where evidence was not readily available to support the accrual. The items were based on estimates and/or judgements but there was insufficient explanation provided in the working papers for an assessment of the reasonableness of the amounts accrued to be carried out.</p>	<p>Following additional audit activity, sufficient assurances were obtained, however we have identified accruals as an area where working papers could be improved in preparation for the 2017/18 audit.</p> <p>Action Plan (Appendix 1, point 3)</p>
<p>8. Agreement of IJB balances</p> <p>The three integration joint boards became operational from 1 April 2016. Budgets delegated to the IJBs in Grampian amounted to £420m representing 40% of the board's total budget.</p> <p>The Scottish Government's Integrated Resources Advisory Group issued guidance for IJB accounting which requires that the primary transactions with the board and the payments in support of the directions made by the IJB to the board be accounted for as distinct and separate transactions. In effect, there is a 'doubling up' within the accounts and this largely explains why the board's income and expenditure has increased by approximately £500m.</p> <p>Despite the early discussions between the board and the IJBs on agreement of balances, it was late in the audit process before the board could confirm balances with all three IJBs. While the overall positions were agreed, there were issues around the analysis of balances and the associated disclosures within the accounts.</p>	<p>The matter was finally resolved in advance of the audit committee to consider NHS Grampian's audited accounts. Had there been a financial impact arising from the preparation of the IJB accounts and agreement of balances, then NHS Grampian could have failed to achieve its financial targets.</p> <p>Action Plan (Appendix 1, point 3)</p>

Other findings

26. Due to a change in the discount rate notified by Scottish Ministers in respect of personal injury cases, the rate used changed from 2.50% to -0.75% with effect from 28 March 2017. The discount rate is applied to significant clinical/medical negligence cases where the claimant requires long term care. With regard to NHS Grampian, there were 5 ongoing cases which required to be reassessed by the Central Legal Office to reflect the impact of the new discount rate. In overall terms, the provision increased from £21m to £68m in 2016/17. We confirmed that the majority of the movement is a direct result of the change in discount rate.

Part 2

Financial management



Main judgements

NHS Grampian had good systems of internal control in place during 2016/17 and testing of key controls confirmed they had operated effectively.

NHS Grampian has sound financial management arrangements in place, including budgetary control, enabling financial targets to be achieved.

There are appropriate arrangements in place for the prevention and detection of fraud and corruption

Financial performance in 2016/17

27. NHS Grampian, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in [Exhibit 4](#), the board operated within all limits during 2016/17.

Exhibit 4

Performance against resource limits in 2016/17

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	984.007	982.976	1.031
Non-core revenue resource limit	56.767	56.767	0
Total revenue resource limit	1,040.774	1,039.743	1.031
Core capital resource limit	12.099	12.099	0
Non-core capital resource limit	8.297	8.297	0
Total capital resource limit	20.396	20.396	0
Cash requirement	1,040.421	1,040.421	0

Source: NHS Grampian Annual Report and Accounts 2016/17

Maintaining financial balance

28. Despite considerable cost pressures, NHS Grampian achieved an underspend of £1.031m (0.1%) against its 2016/17 core revenue resource limit of £984.007m. Its in-year outturn was a surplus of £0.888m against a target breakeven position. The 2016/17 Local Delivery Plan (LDP) forecast a break-even position. The board attributes the underspend to additional funding received late in the financial year from the Scottish Government and a lower than anticipated share in the CNORIS national pool.
29. The Scottish Government uses a formula developed by the National Resource Allocation Committee (NRAC) to allocate most of territorial boards' budgets and made a commitment that by 2016/17, all boards would be within one per cent of the target allocations. In 2016/17, NHS Grampian received NRAC funding of £15m which brought its NRAC funding level closer to the target and is now within 1.6% of the board's target allocation.
30. While the board achieved financial balance in line with its LDP for 2016/17, it faced challenges during the year. As illustrated in [Exhibit 5](#), the monthly reported financial position was in line with the trajectory set out in the LDP. Planned monthly overspends were reported between April and November 2016 while year to date results were overspent every month until February 2017. Key factors included high temporary staff costs and premiums paid to junior doctors for excess hours worked.
31. The reported overspend reached a peak of £6.7m in November 2016 and thereafter the position improved in the final four months of the financial year. The improving position is mainly attributed to the use of non recurring funding of £11.2m to mitigate the impact of operational overspends. For example, there was slippage on recruitment and "Spend to Save" investments and an underspend on depreciation charges. Non-recurring savings are one-off savings that apply to one financial year and do not result in on-going (recurring) savings in future years.
32. While some slippage is outwith the board's control, i.e. difficulty in recruiting to budgeted posts, reliance on the use of non recurring funding is not sustainable in the longer term because the quality and costs of providing healthcare will suffer if the required investment in services is not made. In Part 5, we comment on the board's performance against national targets. In common with most boards, NHS Grampian is struggling to meet the majority of key national standards. The board has given priority to delivering the best quality of healthcare within the resources available to maintain financial balance. If operational plans to reduce costs and efficiency targets are not achieved, the board may be unable to achieve financial balance.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Exhibit 5

Underspend/ (overspend) in revenue budget



Source: NHS Grampian Monthly Financial Performance Returns

Efficiency savings

33. NHS Grampian was required to deliver efficiency savings of 3% in 2016/17. This is equivalent to a savings target of £26.5m, £7.4m of which was still to be identified at the time the LDP was submitted to the Scottish Government. While the board met its savings target, it is increasingly reliant on non-recurring savings as illustrated in Exhibit 6, which is not sustainable in the future. £15.1m (57%) of savings were achieved on a recurring basis and £11.4m (43%) achieved on a non-recurring basis.

Exhibit 6

Savings – recurring and non-recurring



Source: Annual Audit Reports for 2012-16 and Finance Performance Return to Scottish Government for 2016/17

Infrastructure programme

- 34.** NHS Grampian's infrastructure programme for 2016/17 was £57m which included major backlog maintenance work at Aberdeen Royal Infirmary of £11.9m, construction of a multi-storey car park of £10.4m and replacement of medical equipment of £4.7m. In addition, the programme included non-core funding for the replacement of Inverurie and Foresterhill health centres through HUB North East Scotland projects amounting to £14.5m.
- 35.** Gross expenditure for the year was £41.2m, £15.8m lower than the original infrastructure programme. Actual total capital allocation received during the year was £20.4m. This was made up of £12.1m core allocation and £8.3m non-core allocation. The capital allocation was supplemented by charitable donations, revenue budgets made available to support estates maintenance and proceeds from the sale of assets. There was slippage of £6.2m on the new health centres due to the delay in reaching financial close as a result of new European guidance affecting the original funding scheme. In addition, the planned start date of the hospital multi-storey car park was deferred by a few months to secure the necessary planning consents and complete preliminary groundwork investigations. Funded entirely by a charitable donation, £3.5m was spent in the year from a total budget of £10.4m. The programme of work is scheduled to conclude by 31 December 2017.

Budgetary processes

- 36.** We considered NHS Grampian's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports and board and committee papers, and from our attendance at meetings, we confirmed the following arrangements were in place:
- monthly financial reports are reviewed by the senior management team and distributed to board members
 - the financial position is considered in detail by the Performance Governance Committee as part of the committee's delegated responsibility to review the board's performance
 - the board receives a regular 'Performance and Quality' report from the Performance Governance Committee setting out the key areas being highlighted for the board's consideration from scrutiny undertaken together with the minute of the committee meeting
 - as part of the 'Performance and Quality' report, the board receives high level assurances from the Director of Finance covering the financial position for the period, forecast position for the financial year and the main areas of overspend and variance from the financial plan. The report contains little commentary on the financial position or the action being taken to achieve financial balance.
- 37.** Whilst detailed discussions take place at board seminars and briefings, the financial element within the 'Performance and Quality' report, the only financial report routinely considered by the board, is at a strategic level. In light of growing demands on healthcare and anticipated increasing financial pressure across the sector, the board has an important role in scrutinising and challenging plans. For example, these may require resource reduction, service redesign and other action to achieve financial balance.
- 38.** The draft Local Delivery Plan for 2017/18 was approved retrospectively by the board in April 2017 after it was submitted to the Scottish Government to meet the deadline of 31 March 2017. The plan presented to the board was an abridged version and only included the financial plan for 2017/18. Detailed consideration of the plan had already taken place at a board seminar.

39. With increased public expectations about openness and transparency and taking account of recommendations from previous Audit Scotland studies examining the role of boards, we believe there is scope for the board to review the form and content of its financial reports to ensure they are transparent, fit for purpose and inform robust and timely board discussions.

Recommendation 4

There is scope to review the form and content of the board's financial reports including savings plans to ensure they are transparent, fit for purpose and inform robust and timely board discussions.

Internal controls

40. As part of our audit we identify and review key internal controls in those accounting systems which we regard as significant for the production of the accounts. Our objective is to gain assurance that NHS Grampian has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements.
41. Our findings were included in an audit progress report presented to the Audit Committee in March 2017 and an interim audit report shared with management in May 2017. We concluded that the controls put in place by management are adequate and are operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Grampian'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.

Prevention and detection of fraud and irregularity

42. We have a responsibility for reviewing the board's arrangements for the prevention and detection of fraud. Our audit work covered a review of Standing Financial Instructions and policies covering fraud and 'voicing concern' (i.e. whistle blowing). Our interim reporting highlighted that the 'voicing concern' policy had not been updated since 2006 but that it had now been refreshed. Policies are comprehensive and accessible for staff and there is regular communication with staff to advise of changes.
43. The Audit Committee's remit was updated in 2015 to include a role in reviewing the adequacy of policies and procedures to counter fraud. As part of this responsibility, the committee regularly receives Counter Fraud progress reports which highlight actual and suspected incidents across the NHS as well as providing a summary on progress with cases in NHS Grampian.
44. We concluded that NHS Grampian is proactive in promoting fraud awareness and had good arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

45. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated 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.

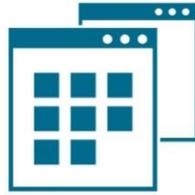
Exhibit 7

Total number of matches



6,209

Number recommended for investigation



767

Completed/closed investigations



0

Source: National Fraud Initiative Database

46. NFI activity is summarised in [Exhibit 7](#). In total, there are 6,209 matches of which 767 (12%) were identified as recommended matches to be investigated. The majority of the recommended matches relate to duplicate accounts payable records where the creditor and amount paid are the same, and consequently, these are the matches being prioritised by the board.
47. Due to a delay in the release of payroll matches, bodies only received their matches in May 2017 and therefore review is at an early stage. With regard to NHS Grampian, there are 129 recommended payroll matches.
48. To ensure that the Audit Committee is kept abreast of the board's NFI progress, regular updates are made to the Committee on fraud, which includes a segment on NFI related activity.
49. Overall, we concluded that NHS Grampian takes an appropriate approach to NFI, as they are proactive in investigating the recommended matches.

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

50. NHS Grampian's Standards of Business Conduct for Staff and Standing Financial Instructions provide the basic principles and guidance aimed at preventing and detecting bribery and corruption. The Board has recently strengthened its arrangements in this area to include
- the production of a formal document explaining the procedures to be followed when declaring interests and how this information will be held and used
 - in addition to gifts and hospitality, staff are required to declare other interests as well and separately identifying any benefits arising through arrangements with the Pharmaceutical Industry.
51. Based on our review of the evidence we concluded that the Board has adequate arrangements in place for the prevention and detection of bribery and corruption.

Good practice

52. The Code of Audit Practice 2016 encourages auditors to identify good practice which in their opinion is worth sharing more widely. We would highlight the increased disclosures required from staff in respect of registers of interest and arrangements with pharmaceutical companies (para 50) as good practice.

Part 3

Financial sustainability



Main judgements

NHS Grampian has good financial planning arrangements in place based on three year financial plans within its Local Delivery Plan

NHS Grampian achieved financial balance in 2016/17 through short-term measures. Savings to address expected funding shortfalls in each of the next 3 years have yet to be identified.

Sound project management arrangements are in place for the delivery of the board's infrastructure programme.

Financial planning

53. NHS Grampian's Local Delivery Plan (LDP) for 2017/18 to 2019/20 sets out how the Board's financial, workforce and service plans will implement its strategic priorities. The three-year financial plan is a key component of the LDP, setting out how the board plans to achieve financial balance over the period.
54. The basic funding uplift allocated to territorial boards for 2017/18 was 1.5% of which 1.1% was required to be transferred to IJBs to fund social care costs associated with the introduction of the Scottish Living Wage. Boards therefore have a net uplift of 0.4% which has been assumed for the subsequent two years of the financial plan. Scottish Government uplifts beyond 2017/18 are not known at this stage.
55. There are significant funding pressures over the period of the plan including brought forward operational deficits; staff pay costs including increments; secondary care drugs and the impact of legislative changes. In 2017/18, the board's financial forecast highlights an underlying deficit of £14.4m which will require to be addressed through a combination of recurring and non-recurring savings. Pending confirmation of the Scottish Government settlement beyond 2017/18, financial plans for subsequent years remain indicative at this stage.
56. Within the plan, a number of high risks have been identified and these include: non-achievement of cash releasing efficiency savings; overspends on IJB budgets; establishment for nurses and Allied Health Professionals not being compliant with guidance; reduced elective capacity by discontinuing the use of independent sector; and a capital allocation that may not be sufficient to replace critical medical equipment.
57. The board is facing an extremely challenging position. Whilst the gross baseline funding uplift is increasing for the next three years, the net amount allocated to services directly controlled by the board is declining against a backdrop of rising costs and the need to invest in services. The financial plan

Financial sustainability looks forward to the medium and long term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

projects a potential funding gap of £27.7m between out-turn and funding for the coming year. Efficiency savings will be crucial in bridging this gap next year and in future years. The board will have to find cash releasing savings in order to achieve financial balance.

58. The Board participates in the National Health Service Superannuation Scheme (Scotland) (NHSSS(S)) which is an unfunded multi-employer scheme where the share of assets and liabilities applicable to each employer is not identifiable.
59. The UK Government's Public Service Pensions Act requires that a valuation of the NHSSS(S) must be undertaken every four years to measure the costs of benefits being provided. Details of how and when each valuation should be undertaken are set out in HM Treasury Directions and regulations (in particular the [Public Service Pension \(Valuations and Employer Cost Cap\) Directions 2014](#)) (as amended)).
60. The valuation of the NHSSS(S) was carried out by the Government Actuary's Department on behalf of the Scottish Government based on scheme data as at 31st March 2012. Completed in January 2015, the results were used to set employer contribution rates from 1 April 2015 to 31 March 2019. The latest valuation indicated a liability of £44.8b at 31 March 2016.

Medium to long term efficiency savings

61. NHS Grampian is required to achieve efficiency savings of 3.1% of baseline RRL in 2017/18. This is equivalent to a saving of £27.7m of which £8.0m provides flexibility. The balance of £19.7m (78%) will largely be achieved from recurring savings. This is a significant challenge for the board.

Recommendation 4

There is scope to review the form and content of the board's financial reports including savings plans to ensure they are transparent, fit for purpose and inform robust and timely board discussions.

62. In each subsequent year of the plan, NHS Grampian is required to achieve efficiency savings of 3.4% and 2.8% as illustrated in [Exhibit 8](#). Most of the savings required in 2018/19 and 2019/20 are unidentified at this stage. In recent years, the board has had a good track record in achieving its savings targets. However, with many of the 'easier' savings already made, the board will face increased challenges in meeting future targets.

Asset management

63. NHS Grampian is required to manage its hospitals, community buildings and other assets, such as medical equipment, in an effective way to ensure patients receive high quality care.
64. NHS Grampian's annual Property and Asset Management Strategy (PAMS) provides information on the condition of the board's estate (i.e. buildings). Whilst the board still has the second highest level of backlog in Scotland, it has a comprehensive maintenance programme of targeted expenditure which aims to reduce the level by 33% by March 2022. The plan is regularly updated and reported to members.
65. The board's financial plan for the next five years provides for investment of £29.1m in works to reduce backlog maintenance. This includes £18.9m of capital funding, £4.1m from asset disposals and £6.1m of revenue funding. A total of £13.5m is planned to be spent in 2017/18.

Exhibit 8

Savings targets 2017/18 to 2019/20

	2017/18 £m	2018/19 £m	2019/20 £m
Recurring	21.7	27.3	21.7
Non-recurring	6	4	4.5
Total	27.7	31.3	26.2
% of RRL	3.1%	3.4%	2.8%

Source: NHS Grampian Draft Local Delivery Plan for 2017/18

66. The board is halfway through its existing backlog maintenance programme (Case Study 1) and is making steady progress to achieving it. The board is committed to delivering its plan because it believes this is crucial in providing quality, efficient and safe healthcare services that are compliant with health and safety regulations. In previous years, success in delivering backlog maintenance depended on the ability to raise funds from disposal of surplus assets. However, due to the downturn in the local property market, the board is unable to realistically plan the value and timing of receipts and accordingly has adjusted its capital programme for the next five years to reflect this.

Case Study 1

Backlog maintenance progress

In February 2014, the board approved a detailed implementation plan aimed at an overall 80% (£61m) reduction in High and Very High risk backlog maintenance in clinical areas by 2018. In January 2017 this plan was updated to reflect a revised programme of works and asset disposals to be delivered over the 10 year period April 2012 to March 2022. This revised programme is aimed at delivering an overall reduction in backlog maintenance of £63.6m (33%) by March 2022.

Backlog risk reassessed as £193.4m at 1st April 2012 of which £76.2m was high or very high risk

56% of NHS Grampian premises are over 30 years old (67% in 2012)

The supporting financial plan incorporates a range of funding sources including the board's formula capital allocation, revenue maintenance budgets, charitable donations and the re-investment of proceeds from asset disposals.

Projects completed to date have reduced this backlog to £138m at 1 March 2016 (update to 31 March 2017) and the board is on target to achieve the plan

A large part of the plans to address backlog are targeted at improving the inpatient accommodation at Aberdeen Royal Infirmary (ARI). To manage the dependency on asset disposals as a significant source of funding for this scheme, the board agreed that the works package for East End 2 and Phase 2 blocks would be delivered in separately contracted stages. The works within East End 2 block and the first three stages of the Phase 2 block are now complete at a total cost of £34.8m.

The works programme for the next stage of Phase 2 is now underway with an estimated cost of £4.3m. This will focus on Wards 204, 205 & 206 – Neurosciences and will complete the refurbishment of all in patient accommodation at Aberdeen Royal Infirmary by December 2017.

A high level budgetary estimate for the next stage is £5.3m to be carried out between December 2017 and October 2018. This stage will focus on works in the basement levels, necessary to ensure compliance with fire regulations and other statutory requirements (e.g. infection control and health and safety).

The backlog risk that will be eliminated by the investment programme in Phase 2, when complete, is quantified at £13.2m.

Source: Progress Reports to Audit Committee/Board

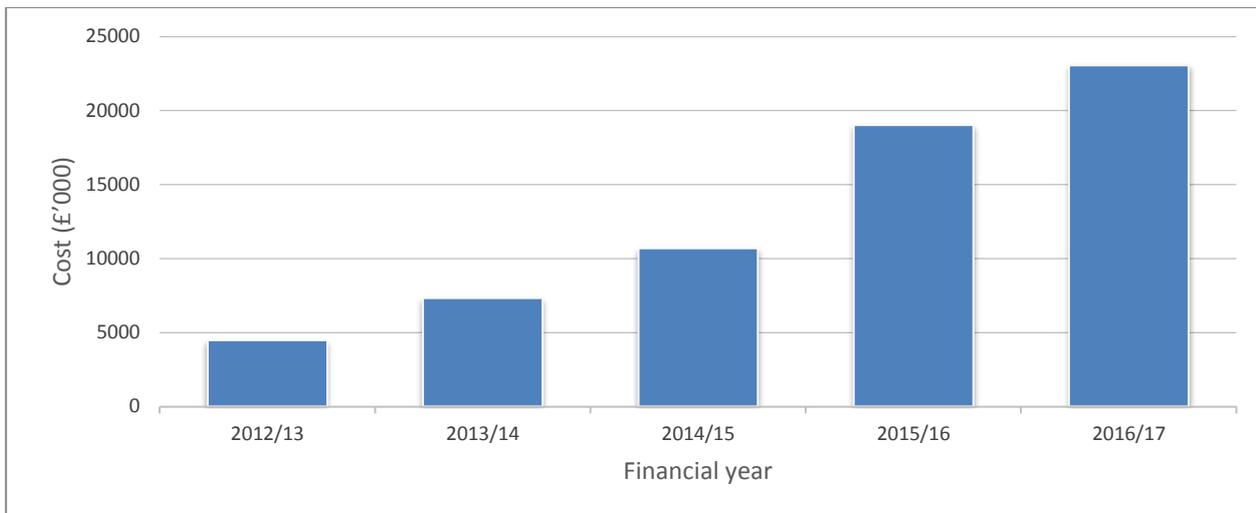
Workforce planning

67. In February 2017, the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.
68. NHS Grampian is facing a number of workforce challenges. For example, 33.1% of the nursing workforce and 38.5% of healthcare scientists are aged over 50. In addition, 25% of administration services staff and 32% of support services staff are aged over 55. An ageing workforce is unsustainable in the longer term, with the risk of key skills being lost, if there is inadequate succession planning in place.
69. To create a sustainable workforce, NHS Grampian, have a 'return to practice' programme as well as links with Robert Gordon University. It is felt that these can help mitigate the gaps in workforce capacity and experience when staff decide to retire.
70. In addition, NHS Grampian also faces significant challenges in recruiting and retaining staff with turnover rates increasing. Although there has been recent improvement in some areas, recruitment remains an issue. The 2016 Workforce Plan states that 44% of Allied Health Professional posts and 59% of consultant posts have been vacant for more than 3 months and 6 months respectively.
71. As a result of recruitment and retention problems, and pressures to meet waiting time targets, the amount spent on temporary staff has increased over the last five years as illustrated in [Exhibit 9](#). Agency staff provide flexibility in the short term by providing cover for sickness absence and vacancies but that comes at a cost. Spending on agency staff has increased from 0.92%, of total staff costs in 2012/13 to 3.92% in 2016/17. In monetary terms, this is an increase of £18.6m. In 2016/17 alone, NHS Grampian's spend on agency staff increased by 21% to £23.1m.
72. This has contributed to an overspend on the medical staffing budget of £5.8m, and an overspend of £2.5m on the nursing staffing budget.
73. Difficulties in recruiting and retaining staff and greater use of temporary staff may pose risks to patient safety and quality of care. These risks can arise from temporary staff being unaware of local systems and processes, or a lack of staff to provide safe care. Furthermore, the increasing use of temporary staff, that can cost significantly more than permanent staff, is putting pressure on the board's budget and does not represent value for money

74. NHS Grampian, in common with most NHS boards, is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. In 2016/17, NHS Grampian's sickness absence rate rose to 4.78%, compared to between 4.62% and 4.64%, in the previous three years. With an absence rate across Scotland of 4.9%, NHS Grampian is below the average and remains focused on implementing measures to support staff in maximising their attendance at work.

Exhibit 9

Agency staff costs



Source: NHS Grampian Annual Report and Accounts

Part 4

Governance and transparency



Main judgements

NHS Grampian has appropriate governance arrangements in place that support decisions made by the board.

NHS Grampian is open and transparent in the way it conducts its business but there is scope to review its practices.

There is evidence of good structures for partnership working with the councils and IJBs within NHS Grampian's boundary.

Governance arrangements

Internal audit

75. Internal audit provides the board and the Accountable Officer with independent assurance on NHS Grampian's overall risk management, internal control and corporate governance processes.
76. The internal audit function is carried out by PricewaterhouseCoopers, LLP. We carried out a review of the internal audit service and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS).
77. To minimise duplication of effort, we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's review of key financial controls for the purpose of obtaining direct assurance for our financial statements work. We also considered internal audit findings as part of our wider dimension work.

ICT risks

78. In their review of cyber security, the chief internal auditor highlighted that:
 - the level of engagement across NHS Grampian and eHealth varies, which has resulted, in parts, to a fragmented approach to IT security
 - cyber security has been identified as an enterprise level risk by senior management. However, there is currently no dedicated governance forum to which IT can escalate cyber security issues or report the effectiveness of the current cyber security strategy. IT security metrics are not regularly reported to senior management

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

- Compliance rates with NHS Grampian's mandatory IT security training are not monitored and the completion of this training is not enforced, resulting in low compliance levels across the organisation
- eHealth has implemented IT security controls that follow good practice. However, a low maturity rating may be recorded within some domains as processes may not be: performed regularly; formally documented; regularly reported to management to influence strategic objectives; or reflect all sectors within NHS Grampian.

79. While the board has existing IT security policies, it is some time since they were last reviewed and may therefore no longer be fit for purpose. In addition, the board uses the national e-Health strategy in the absence of its own formal e-Health strategy to inform its priorities. There is a risk that e-Health activities are not aligned to corporate priorities.

Recommendation 5

The board's ICT security arrangements should be strengthened in light of growing cyber security threats.

Risk management

- 80.** We reviewed NHS Grampian's Risk Management Plan covering the period 2015-18 and the Risk Management Annual Report for 2015/16. The annual report outlined risk management improvement work for the following year. This included a board seminar facilitated by the board's internal auditor and focusing on risk appetite.
- 81.** As highlighted in our Interim Report, while the Strategic Risk Register is taken to the Performance Governance Committee regularly, the risks contained therein were last formally reviewed in 2015. There is a risk that members are not aware of the status of risks identified and therefore are unable to decide on the appropriate actions to take in a timely manner.

Project management

- 82.** In terms of infrastructure programme risks, the board has an Asset Management Group (AMG) which: reviews and updates the Property and Asset Management Strategy for Board approval; monitors progress being made against delivery of the Asset Management Plan, specifically the annual capital investment programme and disposal programme; and ensures system wide co-ordination, scrutiny and approval of all asset investment/disinvestment decisions.
- 83.** AMG reports to the Performance Governance Committee regarding the monitoring of performance against the PAMS and to the board regarding approval of all investment and disinvestment decisions.
- 84.** The board has robust governance arrangements in place to monitor, report and take action in regard to its Asset Management Plan and its overall infrastructure programme.

Transparency

- 85.** Transparency means that the public, in particular, local residents, have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

- 86.** There is evidence from a number of sources to demonstrate the board's commitment to transparency including the annual accountability review, board meetings are open to the public and papers are publicly available on the board's website. While committee meetings are held in private, committee minutes are publicly available on the board's website.
- 87.** As highlighted in paragraph 39, there is an opportunity to review the form and content of the financial reports to the board. It is important that members are made aware of emerging issues in a timely manner to elicit informed and robust board discussion.
- 88.** In March 2017, the Scottish Government updated its publication 'On Board' which provides guidance for board members of public bodies in Scotland. In order to consider its practices in respect of openness and transparency, the board should review the revised guidance and complete the associated good governance checklist.
- 89.** Internal Audit reported that the board has in place a process for tracking and monitoring Scottish Public Services Ombudsman complaints and that outcomes from upheld complaints are shared within the organisation as required. Regular reporting is produced for the Clinical Governance Committee on upheld complaints to provide transparency at executive and non-executive level of the types and volume of complaints being received.
- 90.** Overall, we concluded that the board conducts its business in an open and transparent manner. It would however be timely for the board to review the transparency of its practices e.g. board/committee meetings and financial information provided to board members.

Health and Social Care Partnerships

- 91.** Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on February 6, 2016. This brings together NHS and local authority care services under one partnership arrangement for each council area.
- 92.** Integration is intended to provide greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends, and doing the things that give life meaning and value.
- 93.** There are three IJBs, commonly known as Health and Social Care Partnerships (HSCP) within NHS Grampian's catchment area, Aberdeen City, Aberdeenshire, and Moray, who all became fully operational on 1 April 2016. There is a strong ethos of partnership working across the public sector in the north east of Scotland. The North East Scotland Partnership Steering Group provides the opportunity for NHS Grampian board members to meet with the chairs and chief officers of the three IJBs in the area. In addition, there are regular senior officer meetings involving NHS Grampian's chief executive and the council chief executive for the appropriate IJB area along with the relevant IJB chief officer and chief finance officer.
- 94.** From a scrutiny perspective, each IJB has an audit committee working alongside the board's and respective council's audit committee. All audit committee chairs recently met for the first time with a view to developing a shared business agenda and to support existing good partnership working.
- 95.** Overall the process of integration went smoothly. No significant issues were identified in the post-integration review undertaken by the board's internal audit in respect of the governance of the HSCPs and the budgeting process. However, as both of these are paramount factors to the success of the HSCPs and underpin the realisation of the strategic priorities, it is imperative that the

HSCP continue to make progress, to enable them to achieve their strategic priorities.

- 96.** It is recognised that it is still early in the life of the HSCPs, and that improvements will be made going forward. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of operation. This will be available in spring 2018 and as such, we will be in a better position to assess progress once the work on the report has been completed.

2020 Vision

- 97.** In 2011, the Scottish Government set out 'Healthfit 2020', an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015, the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 Vision.
- 98.** NHS Grampian's Clinical Strategy 2016-21 was approved in October 2016 following an extensive discussion and consultation with staff, partners and the public. The strategy builds on Healthfit 2020. It sets out clearly NHS Grampian's own priorities and those it shares with its health and social care partners. The strategy is focused on four overarching themes, namely: prevention, self-management, planned and unscheduled care.
- 99.** There is evidence that the board is giving 2020 Vision an appropriate profile and is ensuring its own strategies align and support the delivery of the vision.

Equalities

- 100.** The Equality Act 2010 and supporting 2012 Regulations introduced a new public sector 'general duty' that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. Under the legislation, public bodies are required to produce and publish a set of equality outcomes every four years and must publish a report on progress made to achieve the quality of outcomes it has set, after two years.
- 101.** We reviewed the Equality Outcomes 2017-2021 report, published in March 2017, and concluded the board has met its statutory duty to:
- publish information on progress made in mainstreaming equality within the board
 - report on progress made towards achieving equality outcomes
 - publish annual employee information and details of the progress made in gathering and using information to better meet the duty
 - publish updated gender pay-gap information.
- 102.** We concluded, on the basis of evidence reviewed, that the board is proactive in ensuring that equality is mainstreamed.

Part 5

Value for money



Main judgements

NHS Grampian has a good performance management framework in place.

The board has not met a range of standards set out in its Local Delivery Plan, however it has demonstrated some improvement in the year when compared with its peer grouping of boards.

Performance management

- 103.** The Scottish Government monitors how NHS Grampian performs against the national performance framework. This includes targets and their trajectories (plans) as set out in the board's Local Delivery Plan (LDP). Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee.
- 104.** As described in paragraph 36, detailed review and scrutiny of performance has been delegated to the Performance Governance Committee. Performance is reported using 45 key indicators (19 LDP Standards and 26 other performance indicators). Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and action taken to improve performance. They could also usefully include the frequency of update and the period covered by the latest available information.
- 105.** In our opinion, the board could consider receiving a snapshot report of key performance indicators with trend messages. In addition, the range of performance information could be extended to cover quality and outcome indicators.

Value for money is concerned with using resources effectively and continually improving services.

Recommendation 4

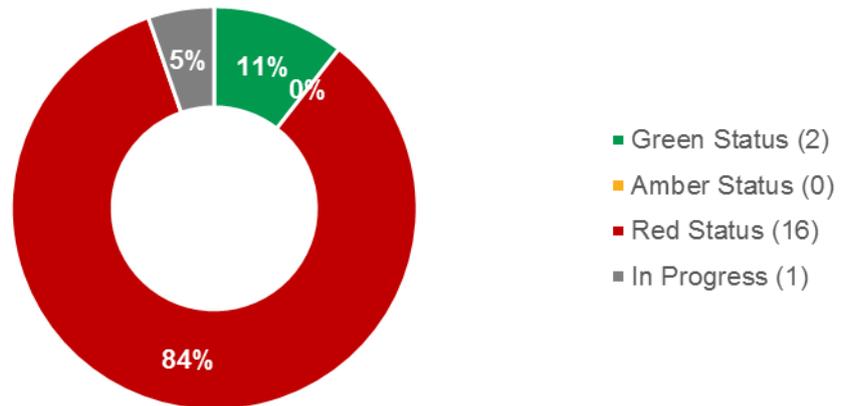
There is scope for the board to review the form and content of its performance reports to ensure they are fit for purpose and inform robust board discussions.

Overview of service performance

106. In May 2017, the performance report to Performance Governance Committee considered the board's 45 key performance targets. [Exhibit 10](#) provides a summary of the outturn.

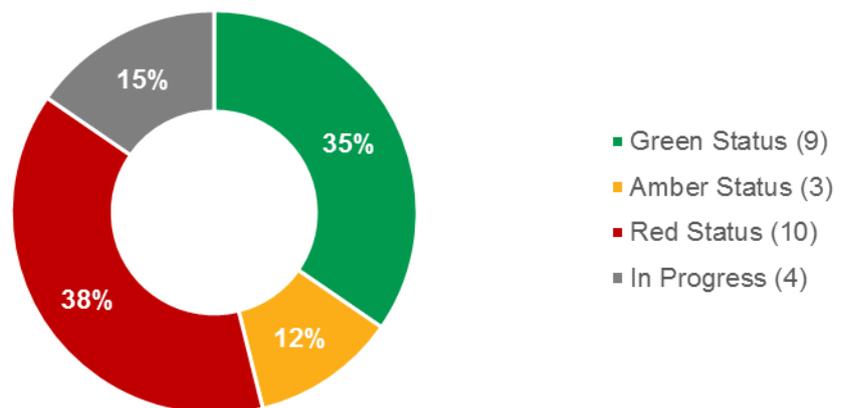
Exhibit 10

Overall performance – LDP Standards



Source: Summary Performance Report for Performance Governance Committee, May 2017

Overall performance – Other Performance Measures



Source: Summary Performance Report for Performance Governance Committee, May 2017

107. Of 19 LDP Standards, two were categorised as green, zero amber, sixteen red and one was concluded as in progress, where:

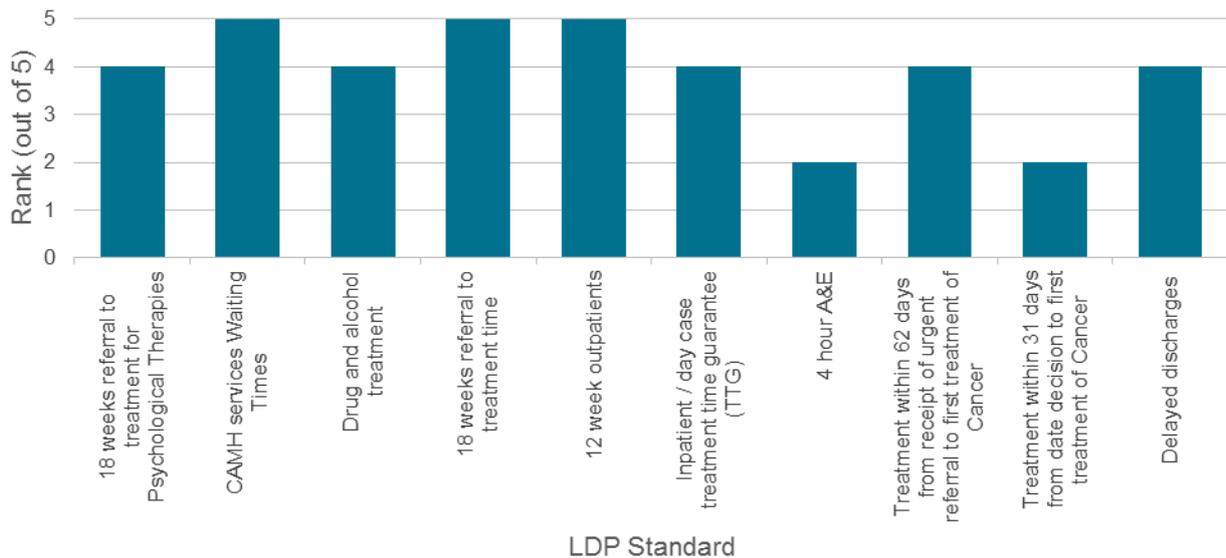
- green means targets being met or exceeded
- amber means performance is within 5% of target

- red means targets outwith acceptable standards (more than 5% below target)
- grey means in progress (no data yet available).

108. Overall, NHS Grampian performs poorly against the 19 LDP Standards. Although performance against other measures is better, there are over a third of other measures where performance is outwith acceptable standards. As highlighted in [Exhibit 11](#), we compared the performance of the board in a number of key LDP Standards against other territorial boards which NHS Grampian consider to be their peer group (i.e. NHS Greater Glasgow and Clyde, NHS Lanarkshire, NHS Lothian and NHS Tayside). We found that the board is one of poorest performers in respect of child and adolescent mental health (CAMH) and outpatient waiting times but ranks better against its peers in respect of unscheduled care and cancer treatment times.

Exhibit 11

Key LDP Standards – NHS Grampian Ranking against peer group Boards¹



Note 1 – Peer group includes NHS Greater Glasgow & Clyde, NHS Lanarkshire, NHS Lothian, NHS Tayside, where 5 is poorest performing.

Source: ISD Scotland, results as at March 2017 with the exception of Drug & Alcohol treatment and both Treatment targets for cancer, which are all based on December 2016 data.

109. Four areas, including two of the board's poorest rankings and a further two areas where there has been good improvement relative to the peer group's results, were selected from [Exhibit 11](#) for further consideration of the board's performance. Action being taken by the Board is summarised in [Exhibit 12](#).

Exhibit 12

Performance against key LDP standards

Target/standard		Performance at March 2017	Action being taken by Board
Child and Adolescent Mental Health Services (CAMHS) Waiting Times Percentage of patients seen within 18 weeks	90%	 45%	<p>The board was unable to achieve the local delivery plan standard due to capacity challenges including difficulty in recruiting to vacant posts, and staff being unavailable as a result of professional development requirements. To alleviate some of these challenges, funding is in place to recruit 8 additional clinical staff.</p> <p>Furthermore, actions have been implemented, in conjunction with key partner agencies, to mitigate the risk to service provision, including continuing to prioritise patients on clinical need, and referrals being assessed on a daily basis and altered if a patient's circumstances change.</p>
12 week outpatients Percentage of patients seen for outpatient appointment within 12 weeks following referral (all sources)	95%	 73%	<p>NHS Grampian is falling considerably short of achieving this target, although the position since the start of October has stabilised.</p> <p>The improved position is attributed to additional capacity, supported by the Scottish Government, and the re-prioritising of access funding.</p>
Inpatient / day case treatment time guarantee (TTG) Percentage of patients seen for outpatient appointment within 12 weeks following referral (all sources)	100%	 74%	<p>Since December 2016, NHS Grampian's performance has been affected by a number of factors including theatre nurse availability, winter pressures on available beds and critical care capacity. In response, the board implemented a comprehensive surgical transformation programme with the aim of prioritising operations based on the needs of patients.</p>
Delayed Discharges Percentage of all patients waiting more than 2 weeks to be discharged	0%	 56%	<p>Although well below the national target, there has been significant improvement in performance with NHS Grampian being one of only two boards in the peer group to reduce the level of delayed discharges in the year. In 2016/17, there was a monthly average of 161 delayed discharges. This decreased in the last 6 months of the financial year to an average of 149. Overall there was a reduction</p>

Target/standard	Performance at March 2017	Action being taken by Board
		<p>of 28% in the number of bed days lost due to delayed discharges in Grampian.</p> <p>Delays tend to be the result of awaiting the completion of care arrangements and waiting for a place to become available.</p>

Source: ISD Scotland, results as at March 2017

110. While the board have given priority to delivering the best services within available resources, it has acknowledged within its Risk Register that focus on quality and safety could be compromised due to culture, service and financial pressures and/or a failure to monitor and implement improvements based on evidence from quality audits, independent assessments, patient experience and recorded incidents. There is a risk that meeting agreed priority government performance targets and achieving financial break-even cannot be delivered within available resources.

Local VFM type review

111. As part of the agreed monitoring framework for its 2016/17 LDP, officers have provided the NHS Grampian board with a progress report covering each of the priorities set out in the LDP as follows:

- June 2016: Antenatal and Early Years
- August 2016: Health Inequalities and Prevention
- October 2016: Self Care and Prevention – Director of Public Health Annual Report
- December 2016: Elective Care
- February 2017: Unscheduled Care
- March 2017: Primary Care
- June 2017: Mental Health

112. Each update outlined current arrangements, strengths, challenges, opportunities, threats and actions taken to improve the quality of patient care and experience building on the benefits afforded by genuine integrated ways of working under the health and social care partnerships in Grampian.

113. Moreover, in connection with a national review of theatre utilisation, NHS Grampian's acute sector management is currently reviewing theatre utilisation, with the aim of identifying ways of improving current utilisation rates. This includes the establishment of a surgical advisory group to facilitate peer review of theatre practices and implementation of a surgical urgency classification system to inform future theatre modelling proposals to best manage demand.

114. The board's internal auditors carried out a review of the design and operating effectiveness of key reporting in place to assess the effectiveness of measures being taken to improve theatre utilisation in acute services and concluded:

“The current suite of KPIs used to track operating theatre utilisation within NHS Grampian is fit for purpose and represents the most informative metrics that could be derived from the suite of data available. NHS Grampian could obtain an even greater level of insight from this suite of metrics by making some changes to existing definitions and expanding the granularity at which the KPIs are assessed. We identified 2 medium and 2 low risk findings.”

115. The board is pro-active in reviewing existing systems and procedures in order to increase productivity and improve performance against waiting times standards.

Shared services

116. The financial challenges facing the health service in Scotland are well documented. The speed at which substantial changes are needed within the NHS means that greater sharing of services between boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 Vision and beyond. In 2015, the Scottish Government established a transformational programme board including senior representatives from NHS boards to try provide greater coordination across boards and various healthcare programme and initiatives.
117. NHS Grampian has a long history of involvement in regional planning and service delivery working with the North of Scotland Boards as part of the North of Scotland Planning Group (NoSPG) comprising NHS Grampian, Highland, Orkney, Shetland and Western Isles. NoSPG has a work programme which includes 23 service networks covering paediatrics, cancer, oral health and cardiovascular services; and 10 projects covering a wide range of services. NoSPG had also agreed to implement a portfolio approach in which its member Chief Executives and senior officers will be associated with broad portfolios of work covering cancer, child health, unscheduled care, planned care and infrastructure issues.
118. The NoSPG is actively exploring ways to expand and improve joint working. There is evidence that the board has fully embraced the benefits of planning, co-ordinating and providing clinical services on a regional basis.

Performance audit reports

119. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are listed in [Appendix 4](#).
120. A follow up review of recommendations arising from a 2015/16 clinical governance audit was carried out and evidence of good progress was found.

Appendix 1

Action plan 2016/17

– recommendations for improvement

No/ Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
1/11	<p>A reconciliation was not being routinely performed between the balance of the Revaluation Reserve (RR) in the asset register with the balance in the ledger.</p> <p><i>Risk: The Revaluation Reserve reported in the financial statements is materially misstated.</i></p>	<p>The board should carry out a regular reconciliation of the balance on the revaluation reserve in the ledger with the balance in the asset register.</p>	<p>Procedures have been amended to ensure a monthly reconciliation of the revaluation reserve in the asset register to the financial ledger.</p> <p>Implemented : April 2017</p>
2/11	<p>The working papers do not provide a complete mapping of expenditure from the financial ledger to the financial statements. Certain codes are extracted for separate disclosure in the analysis of expenditure leaving the remaining balance for disclosure as ‘treatment in board area’ per Note 4.</p> <p><i>Risk: While the total is correct, there is a risk that the analysis of expenditure is materially incorrect if all the codes requiring separate disclosure have not been identified (i.e. the remaining balance could be overstated)</i></p>	<p>The board should review its process for mapping financial transactions from the financial ledger to the financial statements and for conducting analytical/supervisory review procedures to provide an improved audit trail that the correct account codes are included in the various expenditure lines in the SoCNE.</p>	<p>The required analysis of income and expenditure in the annual accounts cannot currently be derived solely from the analysis of account codes and the supporting hierarchy in the general ledger, which is nationally defined and restricted. A national exercise is underway to review the content of the annual accounts, including the required analysis of income and expenditure and how this can be populated by mapping transactions across from the general ledger. NHS Grampian will review existing processes in light of the outcome of the national review exercise.</p> <p>31 March 2018</p>
3/12	<p>While the working papers were generally considered to be of a good quality, trade payables and accruals and the arrangements for group accounts could be improved.</p> <p>Cut off issues were identified and in relation to accruals, some items based on estimates and/or judgments</p>	<p>The year end timetable and close down procedures should be refreshed to update and strengthen processes.</p>	<p>Learning from the 2016/17 process will be used to inform planning for future years.</p> <p>The points raised will be considered by the finance best practice group and guidance/reminders on the importance of including a full explanation of the rationale for accruals, where judgement</p>

No/ Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
	<p>did not have sufficient supporting explanation in working papers.</p> <p>Risk: Trade payables and accruals are materially misstated.</p> <p>Agreement of the final position of the IJB balances included in group accounts took some time to finalise.</p> <p>Risk: The achievement of financial targets could be affected if balances are not agreed at an early stage in the timetable for health board accounts.</p>		<p>can affect estimates, will be issued to finance staff as appropriate.</p> <p>30 June 2018</p> <p>Agreement on the overall position was delayed mainly because one IJB did not finalise their position until the first week of June 2017. Also a number of presentational issues arose due to a difference in interpretation of national guidance. The lessons learned from this process will be shared with IJB and council colleagues and built into the planning process for future years.</p> <p>31 December 2017</p>
4/18, 21 and 29	<p>While the board receives regular financial assurances from the Director of Finance, responsibility for detailed financial and performance scrutiny is delegated to the board's Performance Governance Committee.</p> <p>Risk: With increased public expectations about openness and transparency and the significant financial challenges facing the board, there is a risk that scrutiny is not sufficient.</p>	<p>With the ongoing financial challenges facing the sector, the board has an increasingly important role in scrutinising and challenging plans. There is scope for the board to review the form and content of its financial reports including savings plans to ensure they are transparent, fit for purpose and inform robust and timely board discussions.</p> <p>There is also scope for the board to review its performance reports. Consideration should be given to preparation of a high level performance dashboard showing performance against key targets and trend messages.</p>	<p>Current financial governance arrangements are well established and include delegation of all financial performance matters, by the board, to the Performance Governance Committee.</p> <p>All board members receive the detailed monthly financial performance report issued to all senior managers. The content of formal financial progress reports considered at Board meetings is subject to ongoing review in line with changes to the overall financial landscape and how this affects financial target achievement.</p> <p>31 December 2017</p> <p>The board have agreed a thematic approach to performance monitoring with formal reports to the board at each meeting focused on key themes, with the whole annual programme reported over the course of the year. The Performance Governance Committee receives a full update on performance</p>

No/ Page no.	 Issue/risk	 Recommendation	 Agreed management action/timing
			<p>against all targets at each meeting. This performance report is presented as a dashboard showing performance against key targets and trend messages.</p> <p>The content of formal performance reports considered at board meetings is subject to ongoing review in line with local and national priorities.</p> <p>31 December 2017</p>
5/26	<p>The board's IT security policies have not been reviewed for some time. In addition, the internal auditor reported that the board had a fragmented approach to IT security.</p> <p><i>Risk: The board's resilience may not be sufficient to minimise the threat from cyber attacks.</i></p>	<p>The board's IT security arrangements should be strengthened in light of the growing cyber security threats</p>	<p>The outcome of a Cyber Security Maturity Assessment, prepared by the board's internal auditors, was reported to the Audit Committee in March 2017. The Committee agreed that a Cyber Security Action plan should be further developed and agreed by the Senior Leadership Team in line with the ongoing review of priorities for the whole eHealth Team. The Audit Committee will receive a further update on progress in September 2017.</p> <p>Ongoing</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>We reviewed significant and unusual journals and assessed the appropriateness of individuals who raised the journals.</p> <p>We reviewed the bases for estimates to assess if these are objective and free from bias.</p>	<p>The journals are valid and were processed by appropriate individuals.</p> <p>We did not identify any significant transactions which were outside the board's normal course of business.</p> <p>Material balances which are based on estimates are based on reliable information and are free from bias.</p>
<p>2 Risk of fraud over income</p> <p>NHS Grampian receives a significant amount of income in addition to Scottish Government funding. Particular areas of concern include Family Health Services (FHS) income, cash receipts and non-mainstream income generating activities. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>We reviewed the work of Internal Audit in respect of key financial controls.</p> <p>We tested a sample of income transactions and significant accruals at year-end against supporting evidence.</p> <p>We also reviewed a sample of income posted in the new year to ensure it was posted in the correct period.</p> <p>We audited FHS income as part of our review of the reconciliation of the amounts reported in the financial statements against information from the Practitioner Service Division of NHS National Service Scotland.</p>	<p>We concluded that we can place reliance on the work of internal audit. Their review of key financial controls did not highlight any significant weaknesses.</p> <p>With the exception of the proceeds from the disposal of the Cornhill hospital site (as explained in Exhibit 3 on page 11), we concluded that income is valid and correctly accounted for in the right period. The risk focused on revenue income rather than capital where our testing was concluded satisfactorily.</p>
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of</p>	<p>We reviewed the valuer's report (scope/ approach/ valuations) and agreed the total values provided by the District Valuer (DV) to the</p>	<p>We concluded that the revaluation of land and building is fairly stated.</p> <p>We concluded that the information from the DV and CLO</p>

Audit risk	Assurance procedure	Results and conclusions
<p>non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>amounts reported in the ledger. We also tested a sample of individual values to ensure these were accounted for correctly.</p> <p>We reviewed the accounting treatment of property revaluation and confirmed it complies with FReM.</p> <p>We agreed the provisions for clinical negligence claims against the figures provided by Central Legal Office (CLO) and the Scottish Government.</p> <p>We obtained an understanding of the work performed by the DV and the CLO in order that we could place reliance on them as management experts.</p>	<p>can be relied on as audit evidence.</p>
<p>4 Capital investment</p> <p>The board's capital plan includes a number of complex projects. There is a risk the accounting treatment does not comply with accounting requirements. Consequently, the financial statements may be materially misstated.</p>	<p>We reviewed Finance Reports and minutes of the Asset Management Group meetings throughout the year, in particular monitoring progress on major projects identified in the Annual Audit Plan e.g. backlog maintenance and the replacement health centres.</p> <p>We agreed significant asset additions including those still under construction and those completed during the year against supporting evidence including DV valuations.</p> <p>Checks were carried out to ensure that impairment had been appropriately considered.</p> <p>We obtained an understanding of the work performed by the DV.</p>	<p>We confirmed that capital additions and completions during the year were valued in accordance with FReM.</p> <p>We concluded that we can rely on the information provided by the DV as a management expert.</p> <p>Included within significant findings from the audit of the financial statements (Exhibit 3 on pages 10-12), several issues around impairment were identified and amended as part of the audit process.</p>
<p>5 Group accounts and IJBs</p> <p>As 2016/17 is the first year that the three Grampian Integrated Joint Boards (IJBs) will be consolidated into the health board's accounts, there is a risk that the board may fail to meet its statutory reporting requirements if appropriate information and assurances are not received from the IJBs on time.</p>	<p>We reviewed the accounting for the IJBs and the presentation in the financial statements in both the single entity and group accounts against the relevant guidance.</p> <p>We agreed the IJB expenditure and income against working papers and confirmation from the IJB officers.</p>	<p>The board has correctly reflected the IJB balances and other disclosures in both the single entity and group financial statements.</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>6 Financial balance and sustainability</p> <p>Financial results for the first half of 2016/17 show an overspend of £4.6m primarily due to overspent medical and nursing staffing budgets which is attributed to high agency costs and the premium paid to junior medical doctors for non-compliant rotas. Although staff are finding it challenging to reduce costs to achieve balanced budgets, a break-even position is still projected at year-end. In order to deliver this outcome, staff vacancies may not be filled or investment could be delayed. While the board acknowledges this is not sustainable in the longer term, there is a risk that planned investment in services is sacrificed to achieve financial balance.</p>	<p>We reviewed Finance Reports considered by board members throughout the year.</p> <p>We reviewed Local Delivery Plans including supporting Financial Plans for 2016/17 and 2017/18.</p> <p>We met with senior officers to understand better financial information.</p> <p>We agreed funding received during the year to the Scottish Government letters.</p>	<p>The board met its statutory targets. It recorded an underspend of £0.888m mainly due to additional funding received late in the financial year intended for high cost drugs and a lower than anticipated contribution for the year towards the national clinical negligence and other risks indemnity scheme.</p> <p>The board used non-recurring measures of £11m to achieve financial balance. This is not considered sustainable in the long run.</p>
<p>7 Financial savings</p> <p>The board's Local Delivery Plan (LDP) for 2016-21 includes £7.4m of savings yet to be identified. This represents 28% of the total savings required for 2016/17 and this percentage currently increases to 52%-87% over the following four years. There are risks that such savings cannot be delivered without significant adverse impact on healthcare.</p>	<p>As above</p>	<p>Savings of £7.4m were identified in the 2nd quarter of 2016/17 and related to unfilled vacancies. Funding will need to be identified from future allocations to cover these posts when vacancies are filled.</p>
<p>8 Working with IJBs</p> <p>Delegated budgets to the IJBs amount to £420m representing 40% of NHS Grampian's total budget. Operationally, there is a risk IJBs cannot deliver the financial challenges expected of them which would have implications for all partners.</p>	<p>We obtained the financial results of the IJBs.</p> <p>Post integration report by internal audit reviewed.</p>	<p>Year end balances agreed between the board and the three IJBs all reflected a surplus.</p> <p>No major issues highlighted by the post integration report.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>9 Workforce management</p> <p>With an ageing workforce, difficult recruitment in some staff groupings and a higher cost of living in Aberdeen, there are increasing risks being experienced in certain services.</p>	<p>NHS Grampian is one of the field sites for Audit Scotland's performance audit study on workforce planning. This is due for publication in summer 2017.</p>	<p>As set out in our Annual Audit Plan, the findings from the study will be considered when available. This risk will be revisited as part of our 2017/18 audit.</p>
<p>10 Capital investment</p> <p>In view of the board's significant capital investment commitment, there is a risk that project management and monitoring arrangements are not sufficiently robust.</p>	<p>We reviewed AMG and board minutes and Finance Reports throughout the year.</p> <p>We reviewed papers presented to members relating to major capital projects such as the Inverurie and Foresterhill health centres and backlog maintenance.</p> <p>We discussed with Finance officers progress with major capital investments.</p>	<p>We concluded that the board has robust project management arrangements. Regular meetings are held by the AMG and updates provided to members as appropriate.</p>

Appendix 3

Summary of unadjusted misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £100k

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Statement of Comprehensive Net Expenditure		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Over accruals (gas & electricity £322, non-prescribing £143 and late cut off £176)		(641)		
	Accruals			641	
2	Under accrual of income (rebate from pharmaceutical)		(243)		
	Receivables			243	
3	Inclusion of Cornhill disposal (100%) Property, plant and equipment				(2,118)
	Operating Income		(2,178)		
	Receivables			4,296	
4.	RTA income should be shown gross with an associated bad debt provision for amounts not considered to be recoverable. Currently shown net in the accounts				
	Bad debt provision	953	(953)		
	Income				
	Net impact	953	(4,015)	5,180	(2,118)

Appendix 4

Summary of national performance reports 2016/17

NHS relevant reports

[*The National Fraud Initiative in Scotland*](#) – June 2016

[*Social work in Scotland*](#) – September 2016

[*NHS in Scotland 2016*](#) – October 2016

[*Scotland's NHS workforce*](#) – February 2017

NHS Grampian

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