
NHS Tayside

Annual report to Members and the Auditor General for Scotland

Year ended 31 March 2014

10 June 2014

PricewaterhouseCoopers LLP
141 Bothwell Street
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The Audit Committee
NHS Tayside
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10 June 2014

Ladies and Gentlemen,

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2014. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in November 2013. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed the majority of our audit work and can confirm, subject to the Board's final approval of the financial statements, we anticipate being able to issue an unqualified audit opinion on the financial statements on 24 June 2014. At the time of writing, due to timing, we have not yet completed our subsequent events review.

We look forward to discussing our report with you on 17 June 2014. Attending the meeting from PwC will be Kenneth Wilson, Engagement Leader, and Anna Liamzon, Engagement Manager.

Yours faithfully

PricewaterhouseCoopers LLP

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Section 1. Executive summary

Financial Statements

We set out in this report our significant findings from our audit of NHS Tayside (the Board) for 2013/14, together with those matters which auditing standards require us to report to you as “those charged with governance” of the Board.

We carried out our audit work in line with our 2013/14 audit plan that we presented to you on 14 November 2013. Our audit is not designed to identify all matters that may be relevant to you. Accordingly, the audit does not identify all such matters.

As a result of our work, we proposed a number of minor audit adjustments to the draft financial statements. There are no significant unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management. Of the adjustments made during the audit, there were none which impacted the Board’s reported surplus for the year.

Financial performance

NHS Tayside’s performance against its Revenue Resource Limit for 2013/14 was a surplus of £0.2m.

In November 2013, the Board reported a potential forecast overspend of £4m against core revenue budgets for 2013/14. This was largely attributable to increased levels of activity across the Medicine Group, financial pressures associated with the delivery of Treatment Time Guarantee and increased prescribing costs. In order to assist this position, the Board has received brokerage from Scottish Government Health and Social Care Department (SGHSCD) of £2.85m (2012/13: £2.25m).

In January 2014 the Board of Trustees of the Tayside NHS Board Endowment Fund approved a number of submissions for funding totalling £3.64m, of which £2.71m was retrospective spend. In total the Board has received £7.6m (2012/13: £4.4m) of Endowment Funds to fund projects outside of the core activities within its 2013/14 financial plan.

Capital expenditure in year was £14.957m, including capital grants, which was delivered on budget against the Core Capital Resource Limit.

The Board has exceeded its savings target of £21m and the Scottish Government’s 3% target, delivering £22.1m of efficiency savings at 31 March 2014.

Strategic Financial Plan 2014/15

Looking ahead the Board has budgeted to achieve a break even position in 2014/15. To achieve this the Board must continue to achieve its efficiency savings target, set at £22m (3.4% of general allocation) for 2014/15.

The plan assumes that net reliance on non-recurring funding will continue to fall in 2014/15 to a level of £2m, reducing to £1m in 2015/16 and breaking even thereafter.

The Board has committed to a repayment of £2.05m of brokerage to SGHSCD in 2014/15 which will be funded through disposal of properties declared as surplus. These assets have been classified in the 2013/14 financial statements as assets held for sale and a disposal strategy is in place for each.

In light of the financial pressures encountered in the current year, the Board has developed plans to address each of the key areas of overspend and has a £1.5m contingency in place should further pressures arise.

Audit Scotland

Please note that copies of the final version of this report will be sent to Audit Scotland in accordance with their requirements.

Section 2. Significant audit and accounting matters

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Matter arising	Audit response
<p><i>Fraud and management override of controls</i> ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>In any organisation, management may be in a position to override the financial controls that you have in place. The current economic conditions may also increase fraud risk.</p>	<p>We performed procedures to:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries; • review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • bring an element of ‘unpredictability’ into our work. <p>We did not identify any issues to report to you as a result of our work.</p>

Matter arising	Audit response
<p>Recognition of income and expenditure Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Board could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.</p> <p>Due to the majority of revenue being received directly from Scottish Government we extend this presumption to the recognition of expenditure in the NHS.</p>	<p>We obtained an understanding of key revenue and expenditure controls.</p> <p>We performed detailed controls testing over purchasing and payables controls.</p> <p>We evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2013/14 Government Financial Reporting Manual (FRM).</p> <p>We reviewed intra NHS confirmations of balances and disputed amounts to consider the implications on our audit.</p> <p>We performed detailed testing of revenue and expenditure transactions, including deferred revenue, focussing on the areas of greatest risk.</p> <p>We reviewed significant accounting estimates and judgements for indicators of management bias.</p> <p>We did not identify any issues to report to you as a result of our work.</p>
<p>First year consolidation of Endowment Fund NHS Scotland Directors of Finance were informed on 1 August 2013 that following a meeting between Health Finance, Central Finance at Scottish Government and Audit Scotland, that NHS Endowments required to be consolidated into Host Board accounts with effect from 2013-14.</p> <p>NHS Tayside has prepared a set of consolidated financial statements for the first time for the year ended 31 March 2014.</p> <p>As with any new reporting requirements, this change increases the risk of error or misstatement in the financial procedures.</p>	<p>We have co-ordinated with the auditors of the endowment fund through the provision and agreement of group instructions to be undertaken in conjunction with our audit.</p> <p>We have reviewed the working papers of the Endowment Fund auditors to ensure that sufficient, appropriate audit evidence has been obtained.</p> <p>We have reviewed the work performed over the Endowments investment balance, as prescribed by us, conducted by the Endowment Fund auditors.</p> <p>We have performed testing over the consolidation process to ensure that it has been conducted in accordance with the required accounts template.</p> <p>We did not identify any issues to report to you as a result of our work.</p>

Accounting estimates

We have identified the following significant accounting estimates in relation to the financial statements of the Board:

Valuation of Property, Plant and Equipment

Property, plant and equipment is held at £523m within the 2013/14 financial statements, (2012/13: £541m) £490m of which relates to land and buildings. Additions in year totalled £16m (2012/13: £95m) consisting largely of building improvements. The variance of £79m from prior year was due largely to the handover of Phase 2 of the Mental Health NPDO project, which was capitalised in 2012/13.

Land and buildings are subject to an annual valuation by a consortium of independent professional valuers appointed by the Board. The valuations are carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government. Land is valued at fair value and the remainder of the estate is valued at depreciated replacement cost, given its specialised nature. This measurement basis is consistent with that prescribed in the FReM.

Given the Board's relationship with the University of Dundee and the role of Ninewells Hospital as a teaching hospital, areas of this asset are shared between the Board and the University. The shared areas are currently valued at £144m. Upon establishment of the hospital both parties injected capital into the asset, of which the Board contributed 74% of this. The hospital is held at depreciated replacement cost in the accounts, therefore management must use an estimate to assess the percentage of the property which is in use by the Board and therefore will generate benefits to the Board.

NHS Tayside are currently holding c. 70% of the shared areas of the Ninewells Hospital site on their balance sheet, assessed as the proportion of the asset from which the Board can achieve benefits. Whilst this is lower than the 74% original capital injected, it is reasonable that over the period of ownership the share of the site value which the Board utilises has changed. However, management have not reviewed this estimate in recent years and are applying historic percentages to assess the proportion of the asset currently utilised by them. Whilst there is no indication that the estimates currently in use are incorrect, these must be reviewed on an annual basis to ensure it remains appropriate.

Action 1

Clinical negligence provision

Employing health bodies in Scotland are responsible for meeting medical negligence costs up to a £25k threshold per claim. Costs above this threshold are reimbursed to Boards from a central fund held as part of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) by the Scottish Government.

At 31 March 2014, the Board held a clinical negligence provision of £41m related to the Board. The status of each new, ongoing and closed claim is reported to the Board on a quarterly basis by the Central Legal Office. Claims are assessed as category 1, 2, or 3 and only categories 2 and 3 are provided for in accordance with the Annual Accounts Manual 2013/14.

Whilst the Annual Accounts Manual provides a prescriptive approach for providing for the amount which may be suffered in respect of each claim, the extent to which claimants' legal costs (which are paid by the Board in the event of a successful claim) should be provided for is not prescribed. It is therefore the responsibility of each Board to establish a reasonable approach to account for these costs.

At present the Board applies 20% to each claim in order to arrive at a provision for claimant legal costs, however it has been confirmed that this rate has not been subject to formal review in recent years. We have

conducted a review of the average actual claimant costs from claims settled in year and confirmed this was 23% of the claim value, therefore the 20% estimate has been deemed reasonable as a benchmark for estimating future costs.

Whilst our review has concluded that the 20% applied in the current year remains appropriate, the Board should perform an annual review of this approach in order to ensure that the provision accurately reflects such costs in future years.

Action 2

Misstatements and significant audit adjustments

We report to you all misstatements that we have found during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements.

There are no significant unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management. Of the adjustments made during the audit, there were none which impacted the Board's reported surplus for the year.

Qualitative aspects of accounting practices

Financial statement disclosures

As part of our audit work we have reviewed, and tested, the material disclosures in the financial statements. We identified no significant issues as part of this work.

Governance Statement

Scottish Health Boards are required to produce an annual Governance Statement for inclusion in the Annual Report and Accounts. As required by HM Treasury, Chief Executives must prepare a Governance Statement that complies with the guidance in the Scottish Public Finance Manual (SPFM) and that is accurate, complete and fairly reports known facts.

We have conducted a review of the Governance Statement and can confirm:

- We have noted no inconsistencies between evidence collected in the course of our audit and the content of the Governance Statement; and
- We have noted no instances of non-compliance with the SPFM or other authoritative guidance.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

Whilst we have noted no matters to report in relation to the accounting and disclosure of related party transactions in respect of 2013/14 we have identified areas for improvement in relation to the process of identifying related party transactions.

At present the process for identifying related party transactions involves a high level review by management of the register of board members' interests to consider any transactions they are aware that have taken place. However, there is a risk that this approach may not ensure that all transactions are captured. In addition, management have not assigned an approach

to determining what transactions they consider material, in the context of the board and the relevant related party, and therefore which they require to disclose.

Action 3

First year consolidation of Tayside NHS Board Endowment Fund

HM Treasury's Financial Reporting Advisory Board (FRAB) concluded at its meeting in April 2011 that linked charities such as NHS Endowments would require consolidation under IAS 27. SCHSCD subsequently instructed that consolidation of Endowment Funds into Health Board accounts was to commence in the current financial year.

As such, NHS Tayside has consolidated the Tayside Health Board Endowment Fund into their 2013/14 accounts, using the template provided by SCHSCD. We have performed a review of the consolidation process and noted no matters which require to be brought to your attention.

Acknowledgement

All financial statement working papers and required evidence were received in accordance with our agreed timetable and continue to be of a high standard. Overall we have continued to develop our excellent professional relationship with your Finance Team, which has resulted in an efficient and effective audit process. We have achieved a collaborative working approach through detailed prior year debriefs and working together throughout the year to ensure that our audit programme continues to run smoothly and effectively.

We would like to take this opportunity to formally extend our thanks to the Board's managers and staff for the assistance they have provided throughout the audit process.

Section 3. Financial performance

Financial targets

The Board's performance against its financial targets for financial year 2013/14 is set out below:

Table 1: Financial targets summary 2013/14

	Limit as agreed by SGHSCD £ million	Actual Outturn £ million	Underspend £ million
Core Revenue Resource Limit	718.710	718.512	0.198
Non Core Revenue Resource Limit	42.411	42.409	0.002
Total Revenue Resource Limit	761.121	760.921	0.200
Core Capital Resource Limit	14.193	14.193	0
Cash Requirement	786	786	0

The financial position for NHS Tayside for financial year 2013/14 is an underspend of £0.2m (2012/13: £0.274). The key variances from the Board's original budget are outlined below:

- Medicine Group – overspend of £1.2m due to increased levels of activity across the group, impacting both pay and supplies costs. The main pressure for the group is in relation to non compliant medical training grade rotas.
- Specialist Services Group – overspend of £1.96m largely attributable to increased drug costs within Haematology and Renal services, due to an increase in activity levels and the number of high-cost drug treatments.
- Surgery and Theatres Group – overspend of £4.8m attributable to the delivery of the Treatment Time Guarantee. In order to meet demand three temporary operating theatres are in place at the Ninewells Hospital site, the running of which is adding additional cost pressures.
- Income – Income from other Boards and NHS Education Scotland was £1.7m higher than budgeted due to increased levels of activity under existing Service Level Agreements.

In November 2013, the Board reported a potential forecast overspend of £4m against core revenue budgets for the year. This was attributable to the key areas of overspend set out above. In order assist this position, the Board has received brokerage from SGHSCD of £2.85m. This was received on the basis of the Board's surplus property disposal strategy, the proceeds of which will be used to repay the brokerage in 2014/15 and 2015/16.

In January 2014 the Trustees of the Tayside NHS Board Endowment Fund approved a number of submissions for funding totalling £3.64m, of which £2.71m was retrospective spend. In total the Board has received £7.6m (2012/13: £4.4m) of Endowment Funds to fund projects outside of the core activities within its 2013/14 financial plan.

Capital Resource Limit

Total capital expenditure in the period was £14.957m including capital grants. There were no major individual capital projects undertaken in the year and therefore spend is spread across various headings such as building improvements, IM&T and medical equipment.

Given the significant reclassification of assets held for sale, arising from the strategy to dispose of surplus property, there has been a loss on re-measurement of £11.87m in relation to these properties during the year. In accordance with the 2013/14 Manual of Accounts, assets held for sale are held at the lower of carrying amount and fair value less costs to sell.

Treatment Time Guarantee

In accordance with the Patients' Rights Act (Scotland) 2011, as of 1st October 2012, all Scottish Health Boards have a legal duty to ensure that patients receive in-patient or day case treatment within 12 weeks of the treatment being agreed with the relevant Board. In 2013/14 161 NHS Tayside patients exceeded the 12 week treatment time guarantee period.

The Board has incurred the following expenditure in order to meet its duties under the Treatment Time Guarantee:

Table 2: Treatment Time Guarantee expenditure

NHS Tayside	Expenditure £ million
Increase in theatre capacity	5.365
Independent sector	1.270
Weekend working	0.203
Other specialties, additional sessions etc	2.036
Diagnostics	0.454
Total budgeted expenditure	5.342
Actual expenditure	9.328
Deficit	(3.986)

The Board has addressed the £4m deficit in Treatment Time Guarantee expenditure through its receipt of £2.85m of brokerage from SGHSCD, and through use of its additional savings achieved over what was budgeted for the year.

In order to address these costs going forward the Board has built in an additional £4m into its budget over the next two years. It also sits on national groups aimed at devising means through which theatres management, patient booking and referrals can be streamlined in order to achieve further efficiencies.

Financial flexibility (brokerage)

In financial year 2013/14 the Board received brokerage of £2.85m, as agreed with the SGHSCD. This has been set out in the table below:

Table 3: Brokerage summary 2013/14

£ million	Details of Brokerage received	Repayment details
2.85m	Received on the strength of planning delays associated with four former healthcare sites declared as surplus.	Planned repayment of £2.05m to take place in 2014/15 and the remaining £0.8m to be repaid in 2015/16.

In 2012/13 the Board received £2.25m of brokerage from SGHSCD, of which £0.25m has been repaid in 2013/14 in accordance with the agreed repayment plan. The remaining £2m has been agreed to be repaid from proceeds of disposal of properties declared as surplus.

Further brokerage was agreed with SGHSCD in January 2014, received on the basis of the Board's surplus property disposal strategy. The proceeds of this strategy will be used to repay the brokerage in 2014/15 and 2015/16.

The £2.85m received in year will also be repaid through sale of properties declared as surplus, and currently classified as assets held for sale within the accounts. At the time of writing the Board has identified, within its disposal strategy, 26 properties for which it has in place plans to sell. Of the 26 properties, six are being actively marketed, ten are being prepared to take to market and ten have been identified for disposal.

The brokerage arrangements agreed with the SGHSCD have been appropriately disclosed in the Directors' Report and Governance Statement within the 2013/14 financial statements. Brokerage has been accounted for appropriately through the General Fund.

Efficiency savings

The NHS Scotland Efficient Government 3% efficiency savings target was £18.9m for financial year 2013/14 (2012/13: £18.3m). The Board has achieved savings in respect of Efficient Government Targets totalling £22.1m (2012/13: £23.4m). The high level sources through which the Board has achieved these efficiencies are set out below:

Table 4: Efficiency savings 2013/14

Source	Savings £ million	% of total
Clinical Productivity and Workforce	14.7	67
Drugs and Prescribing	1.5	7
Procurement	2.5	11
Support Services/Estates and Facilities	3.4	15
Total reported	22.1	100

Of the £22.1m of savings £11m (50%) was attributable to non-recurring savings. This is a slight improvement on the proportion relied upon in the prior year, of which £12.4m (53%) was from non-recurring sources.

Performance management

The Board has in place a Local Delivery Plan (LDP) for each financial year, which acts as a performance contract between the Scottish Government and the Board. The LDP for 2014/15 comprises three key elements:

- Improvement and Co-production Plan – sets out how the Board will deliver progress against NHS Scotland's 2020 Vision priority areas for development;

- HEAT Targets delivery trajectories – sets out the planned performance against National Heat Targets within the categories of Health Improvement, Efficiency, Access and Treatment; and
- Board’s Contribution to Community Planning Partnership Plans – provides a summary of the key tangible contributions the Board will make toward improved outcomes through co-operation with local Community Planning Partnerships and NHS Board Structures.

Performance is monitored at both a departmental and Board level on a routine basis on the measures outlined above.

There is also a financial and budget monitoring framework in place which allows management to assess financial performance and where required take remedial action throughout the year. Budget monitoring takes place on a monthly basis at all budget levels, to ensure that key variances are identified and understood.

Financial sustainability

The Financial Plan for 2014/15 identifies the following key areas of income and expenditure, recurring and non-recurring:

Table 5: 2014/15 Financial Plan

NHS Tayside	2014/15 Projected £ million
Recurring income	790.8
Recurring expenditure	(804.9)
Recurring savings	12.1
Underlying recurring deficit	(2.0)
Non-recurring income	83.3
Non-recurring expenditure	(91.2)
Non-recurring savings	9.9
Non-recurring surplus	2.0
Financial (deficit)/surplus	0
Recurring deficit as percentage of recurring income	(0.25)%

Underlying recurring deficit

The extent of NHS Boards’ reliance on non-recurring funding has been highlighted as an area of risk in prior years. The plan assumes that net reliance on non-recurring funding sources to cover recurring expenditure in 2014/15 will be around £2.0 million (0.25%), reducing to £1.0 million in 2015/16 and breakeven thereafter.

Future Efficiency Savings

Due to the level of the Board’s local investment plan and other commitments and non-recurring savings achievement, cost reductions required in 2014/15 are £22m, which is equivalent to 3.4% of the general allocation.

The Strategic Financial Plan has identified key cost pressures in coming years to be in the areas of medicines management, prescribing costs and costs associated with the delivery of the Treatment Time Guarantee. The Board has built additional provisions into its 5 year financial plan for each of these areas. In addition

provisions have also been built into the plan for known developments including the increased employer pension contribution rate from 2015, the abolition of the employers' national insurance contracted out rebate in 2016, and standard uplifts for pay and supplies costs.

Key areas of investment identified within the 5 year plan include redevelopment of critical care facilities, improvement of cancer services, development of child and adolescent facilities and improvements in safety and service design.

Health and social care integration

The Public Bodies (Joint Working) (Scotland) Bill was passed on 25th February 2014, and will be followed by secondary legislation to further support the integration of health and social care. The bill provides two options through which the integration of health and social care may be delivered. Local Authorities and Health Boards should decide which is most suitable based on local needs. The two options are:

- Delivery of integrated care through a newly established Integration Joint Board, which would assume ultimate responsibility for planning, resourcing and delivery of the new model; or
- Either the Local Authority or Health Board assume full responsibility for the provision of health and social care, and the associated responsibilities.

In October 2013, NHS Tayside Board approved the Body Corporate Model of integration and the following joint boards were established in line with the existing Community Health Partnership (CHP) structure:

- Angus Health & Social Care Integration Joint Shadow Board
- Dundee Health & Social Care Shadow Integration Board
- Perth & Kinross Health & Social Care Integration Pathfinder Board

In addition a Tayside Health and Social Care Joint Issues Group has been established. This group will develop work plans and focus on issues that benefit from agreement across all three Tayside partnerships. The priorities this group will focus on are; Information Framework, Finance, Performance Framework, Workforce Issues, Risk Management and Clinical and Care Governance.

Health and Social Care Integration will be funded through the combined budgets of NHS Tayside and its partner Local Authorities. In addition to this NHS Tayside has recognised the establishment of an Integration Fund of £100 million from the former Change Fund of £70 million in 2015/16. Against the additional investment of £30 million, an investment of £2.7 million is reflected within the NHS Tayside plan.

Best Value Audit

During the 2013/14 financial year it was agreed with the Audit Committee that we would undertake a Best Value Audit in the area of Procurement through application of the Audit Scotland Best Value Toolkit. The outcome of this work noted one area for development in order to achieve advanced practice. The report was presented to the Audit Committee on 20 March 2014.

Section 4. Governance and internal control

Governance structure

The standing committee structure of the Board remains in place, with the addition of the Endowment Fund Board of Trustees in the current year. Standing committees are charged with oversight of their relevant functions, and report back to the Board on relevant activity on at least an annual basis. Each Committee has a minimum number of Non-Executive Directors.

Within the Board's Code of Corporate Governance each committee has a prescribed purpose, remit, composition and reporting timetable. Our review of the operation of governance arrangements in 2013/14 noted no variations from that which is prescribed within the Code.

We consider that appropriate governance arrangements and reporting are in place.

System of internal control

The Chief Executive Officer in conjunction with management and the Audit Committee is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

Our interim management letter, covering the period 1 March 2013 to 31 December 2013, was presented to the Audit Committee on 20 March 2014 and reported no control deficiencies. Our year end audit procedures involved further testing over the same controls for the period 1 January 2013 to 31 March 2014, this work noted one control deficiency:

Deficiency	Recommendation
<p>We noted one instance of a sample of 37 in which the same individual raised and authorised an order within the PECOS system.</p> <p>Upon investigation it was confirmed that this was due to the fact that the individual was at the top of their authorisation hierarchy within the system and this had been picked by management's own monthly KPI reviews.</p> <p>Management have further investigated the matter and confirmed that this issue is restricted to a single department. A request has been submitted to IT to reconfigure the PECOS approval route to ensure that secondary authorisation is required even when an individual is at the top of their authorisation hierarchy.</p>	<p>A system test should be undertaken to confirm that the system configuration has been adjusted to ensure the individual raising and authorising the order cannot be the same. Management should continue to monitor such transactions as part of their monthly KPI reviews and action as appropriate.</p>

Action 4

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist.

Based on audit work performed we consider the systems of internal control in place appropriate for the needs of the Board.

Risk management

The current governance framework ensures that risk management takes place at all levels of the organisation. The Audit Committee are responsible for oversight at a Board level. Below this sits a Strategic Risk Management Group and an Operational Risk/Health and Safety Management Group, the minutes of which are submitted for review to the Audit Committee. In addition locality Risk Management Groups are in place for Dundee, Perth and Kinross and Angus.

The Board utilises risk management software Datix, which aids the identification, recording, assessment and reporting of both operational and strategic risks. Whilst dedicated risk management groups are responsible for periodic review of risk reports, this also takes place within each sub-committee in relation to their prescribed areas.

In 2013/14 the Board has, as part of its annual risk management work plan, drafted for the first time an NHS Tayside risk appetite statement. This will be utilised going forward to record and assess the Board's tolerance of risk and will contribute to the overall risk management process.

Internal Audit

The role of internal audit is to provide management with assurance that the Board's processes, procedures and activity are efficient, effective and operating. NHS Tayside continues to use the Fife, Tayside and Forth Valley Audit and Management Services as its Internal Audit Function.

Within our role as external auditors, we have understood the extent of work performed by internal audit and assessed whether it would be beneficial to use any work performed. We have reviewed and evaluated outputs of key financial reviews in the year to assist with our audit planning procedures.

Based on audit work performed we consider the Internal Audit function within that Board to be appropriate for their needs.

Waiting Times

In December 2013, Audit Scotland published results of an audit update performed following their February 2013 report 'Management of patients on NHS waiting lists' on behalf of the Auditor General for Scotland. The update involved review of the progress made by the NHS in improving audit trails and monitoring how they manage waiting lists. The Board's internal audit function conducted their own follow up to the original report in October 2013, which concluded that all recommendations made have been fully implemented.

In addition the NHS Scotland Board Waiting Times Executive Leads have produced a controls assurance matrix and audit methodology for use by all Boards in order to conduct monthly audits over their waiting times data and administration. Whilst the Board already had in place an audit methodology for waiting times data, the national model has now been adopted.

Local response to National Performance Reports

On a periodic basis, Audit Scotland publishes National Performance Audit Reports on subject areas of relevance to Scottish Health Boards. We have a duty to follow up with Boards on the extent to which they have considered and responded to relevant reports. Whilst some recommendations have a national application, there are many which can be implemented at a Board level.

As part of our 2013/14 audit procedures we have reviewed the Board's response to the following reports:

- Health inequalities in Scotland (December 2012); and

-
- Prescribing in general practice in Scotland (January 2013).

The health inequalities in Scotland report was formally considered by the Audit Committee and it was concluded that the Board's existing Tayside Health Equity Strategy was sufficient to meet the recommendations within the report.

The prescribing in general practice report was also formally considered by the Audit Committee. In response the Board has completed a self-assessment using the checklist within the report and incorporated associated actions into its Strategic Financial Plan.

Section 5. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors’ responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management’s responsibility

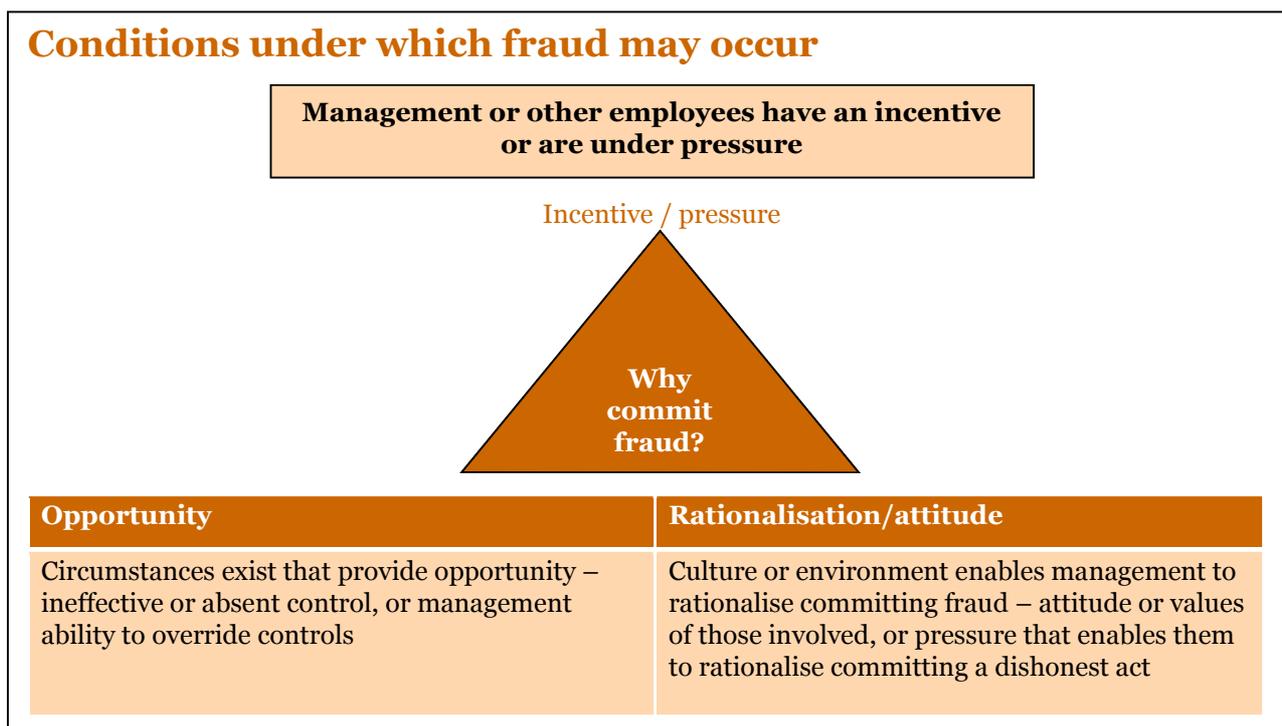
Management’s responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity’s culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management’s identification of fraud risk, implementation of anti-fraud measures and creation of appropriate “tone at the top”; and
- to investigate any alleged or suspected instances of fraud brought to your attention.



Your views on fraud

In our audit plan presented to the Audit Committee on 14 November 2013 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

We ask that the Audit Committee considers these questions again and lets us know if there is anything that has come to attention since the presentation of our audit plan of which we should be aware.

Prevention and detection of fraud and corruption

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of NHS Tayside. The Board have in place an appropriate code of conduct, fraud response plan and whistleblowing policy.

NHS Tayside have participated in the 2013/14 National Fraud Initiative and have taken action to follow up identified matches on a timely basis.

Section 6. Independence

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. We have not undertaken any non-audit work on behalf of the Board.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

Independence conclusion

At the date of this report we confirm that in our professional judgement, we are independent accountants with respect to the Board, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix 1: Action plan

Finding

1) Board share of Ninewells site

NHS Tayside are currently holding c. 70% of the total value of the shared parts of Ninewells Hospital site on their balance sheet, assessed as the proportion of the asset from which the Board can achieve benefits. Whilst this is lower than the 74% original capital injected, it is reasonable that over the period of ownership the share of value which the Board utilises has changed. However, management have not reviewed this estimate in recent years and are applying historic percentages to assess the proportion of the asset currently utilised by them. Whilst there is no indication that the estimates currently in use are incorrect, this must be reviewed on an annual basis to ensure it remains appropriate.

Recommendation:

The Board should ensure that the percentages currently applied to establish its share of the Ninewells site are reviewed on an annual basis and that there is a clear process in place for arriving at this estimate.

2) Clinical negligence provision

Whilst our review of the provision for claimants' legal costs has concluded that the 20% applied in the current year remains appropriate, the Board should perform an annual review of this approach in order to ensure that the provision accurately reflects such costs in future years.

Recommendation:

The Board, as part of their year end preparations, should conduct a review of actual historic claimant costs over the prior 12 months, in order to assess the extent to which the 20% threshold remains appropriate.

Management response

A survey of shared areas on the Ninewells site is in progress in conjunction with the University of Dundee. This will result in an agreed up to date proportion of the asset that is currently utilised by each party. The survey will be updated regularly for any future changes.

Target date: 31 December 2014

Management will conduct an annual review to determine the percentage of claimants' legal costs that require to be added to claims received.

Target date: 31 December 2014

Finding

3) Related party transactions process

At present the process for identifying related party transactions involves a high level review by management of the register of board members' interests to consider any transactions they are aware that have taken place. However, there is a risk that this approach may not ensure that all transactions are captured. In addition, management have not assigned an approach to determining what transactions they consider material, in the context of the board and the relevant related party, and therefore which they require to disclose.

Recommendation:

Management should establish a written process to ensure that all related party transactions are captured as part of the year end process. This should involve cross checking their list of related parties against transactions in the general ledger. Management must also define a process for establishing the extent to which each transaction is material and therefore must be disclosed within the annual accounts.

4) Segregation of duties in PECOS

We noted one instance of a sample of 37 in which the same individual raised and authorised an order within the PECOS system.

Upon investigation it was confirmed that this was due to the fact that the individual was at the top of their authorisation hierarchy within the system and this had been picked by management's own monthly KPI reviews.

Management have further investigated the matter and confirmed that this issue is restricted to a single department. A request has been submitted to IT to reconfigure the PECOS approval route to ensure that secondary authorisation is required even when an individual is at the top of their authorisation hierarchy.

Recommendation:

A system test should be undertaken to confirm that the system configuration has been adjusted to ensure the individual raising and authorising the order cannot be the same. Management should continue to monitor such transactions as part of their monthly KPI reviews and action as appropriate.

Management response

A process has been developed and applied to the current year accounts. This will be documented and applied in subsequent years.

Target date: 31 July 2014

A system test has been undertaken to confirm that the system configuration has been adjusted to ensure the individual raising and authorising the order cannot be the same and procurement counter approvals are in place at defined levels. Management will continue to monitor such transactions as part of their monthly KPI reviews and action as appropriate.

Target date: Ongoing

