

NHS Borders

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Borders Health Board and the Auditor General for Scotland

19 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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2016/17 annual report and accounts	7
Part 2 Financial management	12
Part 3 Financial sustainability	18
Part 4 Governance and transparency	22
Part 5 Value for money	29
Appendix 1 Action plan 2016/17	33
Appendix 2 Significant audit risks identified during planning	37
Appendix 3 Summary of unadjusted misstatements	40
Appendix 4 Summary of national performance reports 2016/17	41

Key messages

2016/17 annual report and accounts

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

Financial management

- 2 NHS Borders has satisfactory arrangements in place for managing its finances and the use of resources. The Board met all of its financial targets for 2016/17 and achieved a small underspend of £64,000 against its Revenue Resource Limit (RRL). However, it faces a significant challenge in 2017/18 to continue to achieve its financial targets.
- 3 NHS Borders did not fully achieve its challenging planned savings of £11.4 million (5.2% of RRL) during the year, with £8.1 million efficiency savings made in 2016/17.

Financial sustainability

- 4 NHS Borders has adequate financial planning arrangements in place. While the Board achieved financial balance in 2016/17 it is facing an extremely challenging position in the future. For 2017/18 alone the financial plan is projecting an efficiency savings gap of £3.8 million.
- 5 Efficiency savings will be crucial to maintaining financial balance over the next three years. Savings required in 2017/18 currently stand at £15.7m.
- 6 The Board is facing a number of cost pressures in areas such as medical and nursing staff costs, and GP prescribing costs. NHS Borders is finding it difficult to recruit staff and relies on temporary or agency staff to fill gaps. The rising costs of temporary staff are adding to the financial pressures facing the Board.

Governance and transparency

- 7 NHS Borders has appropriate governance arrangements in place that support scrutiny of decisions made by the Board. Our review of the role of the Board concluded that good practices are in place to monitor and challenge the Board's performance, and the Board operates in an open and transparent manner with members of the public.

Value for money

- 8 NHS Borders has a satisfactory performance management framework in place which supports continuous improvement. However, the Board continues to struggle to meet key national performance targets, such as Treatment Time Guarantees. Priority has been given to maintaining financial balance rather than Local Delivery Plan (LDP) standards.

Introduction

1. This report summarises the findings from our 2016/17 audit of Borders Health Board, referred to throughout as 'NHS Borders' or 'the Board'.

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 comprises the results of:

- an audit of the Board's 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:

- an interim audit of the Board's main financial systems and governance arrangements
- an audit of the Board's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of the Board's arrangements in relation to the audit dimensions noted above. This report is structured to cover our assessment of each of these dimensions.

4. NHS Borders is responsible for preparing the annual report and accounts. The Board must also put arrangements in place for governance, propriety and regularity that enable them to successfully deliver their objectives.

5. The Board's 'annual report' section includes the following:

- Performance Report
- Accountability Report (which includes the Directors' Report, and Governance Statement)
- Remuneration and Staff Report

6. The 'accounts' section discloses the main financial statements and supporting notes.

7. 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.

8. As public sector auditors we give independent opinions on the annual report and accounts. We also review and report on the arrangements within NHS Borders 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.

9. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#).

10. 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.

11. Our annual audit report contains an action plan at [Appendix 1 \(page 33\)](#). It sets out specific recommendations, management responses, responsible officers and dates for implementation.

12. 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 agreed audit fee is £129,060. As we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. 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 after the Board's annual report and accounts have been laid before the Scottish Parliament.

14. We would like to thank all management and staff who have assisted in our work for their cooperation and assistance during the audit. This is particularly appreciated in light of the unforeseen impact caused by the cyber attack on NHS Borders' systems during the financial statements audit (discussed in further detail in this report).

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Unqualified audit opinion on the annual report and accounts.

NHS Borders' group accounts incorporated the Scottish Borders Integration Joint Board results for the first time, as required.

Improvements to the preparation of the financial statements and working papers are required.

Unqualified audit opinions

15. The annual report and accounts for the year ended 31 March 2017 will be approved by the Board on 29 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.

16. Additionally, we have nothing to report in respect of those matters which we are required to report by exception.

Submission of annual report and accounts for audit

17. We received the first version of the unaudited annual report and accounts on 8 May 2017 (the agreed start date of our financial statements audit). However, this version of the draft accounts was incomplete, with sections of the annual report and notes to the accounts still to be finished (for example, the governance statement was not received until 6 June 2017). In addition, working papers received on day one of the audit were not fully complete and for some account areas, lacked sufficient detail to progress the audit timeously. This was disappointing due to the working paper checklist and technical guidance we provided to officers in advance of the financial statements audit. We do, however, acknowledge that this is year one of our audit appointment and therefore recognise our audit approach has been new to finance officers.

18. While we acknowledge the cyber attack on NHS systems caused unforeseen delays to our audit and the accounts preparation, we believe NHS Borders have scope to improve their organisation and timetable for preparing the draft accounts and working papers. We aim to work closely with finance officers to improve this process in 2017/18.

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.

Recommendation 1

The Board should review its process for preparing the draft annual report and accounts and collating working papers for the 2017/18 audit.

19. In 2016/17, for the first time, the Board's group accounts included the financial results of the Scottish Borders Integration Joint Board (IJB). The draft annual report and accounts submitted for audit on 8 May 2017 did not include the required IJB figures or disclosures. An updated draft subsequently included these IJB figures on 2 June 2017. The audit team worked closely with finance officers to advise the correct presentation of the IJB disclosures in the Board's group accounts. Finance officers provided appropriate workings to evidence IJB's financial results.

20. Our audit carried out substantive testing of IJB NHS income and expenditure transactions and we have provided the IJB auditor with an assurance letter regarding the accuracy of these transactions.

Risks of material misstatement

21. [Appendix 2 \(page 37\)](#) provides a description of those areas assessed during the planning process as having risk of material misstatement. This influenced the audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and our conclusions thereon.

Materiality

22. 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.

23. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the annual report and accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

24. On receipt of the draft annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate, subject to small adjustments to base our materiality on actual gross expenditure for the financial year.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing 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.	£2.6 million
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.	£1.3 million

Materiality level	Amount
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 1% of overall materiality.	£26,000

Source: Audit Scotland

How we evaluate misstatements

25. There were no material adjustments made to the unaudited financial statements arising from our audit. However, our audit work found there to be some unadjusted misstatements which are documented in [Appendix 3 \(page 40\)](#) of this report, which relate to areas of judgement and estimation. It should be noted that the overall net effect of these differences, if corrected, would have a minimal impact on the overall financial position. These unadjusted misstatements have been agreed with management who have provided us with assurance that they will review the relevant account areas in 2017/18, to ensure appropriate methodology is applied to these areas of estimation: bad debt provision, stock valuation and accruals.

26. It is our responsibility to request that all misstatements are corrected although the decision lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the items noted in [Appendix 3](#) as the amounts are not considered material in the context of the financial statements.

Significant findings from the audit in accordance with ISA 260

27. 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 \(page 33\)](#) has been included.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
Financial Statements issues	
<p>1. Annual Report</p> <p>From our review of the first draft of the annual report and accounts, we found there were a number of changes and additional disclosures required to the narrative sections to ensure compliance with the Financial Reporting Manual (FReM). In particular, the Performance Report needed significant revision.</p> <p>We worked closely with officers to recommend several improvements to the annual report sections. We are pleased to report that all recommendations have been incorporated into the final version of the accounts and disclosures are now in accordance with the 2016/17 FReM.</p> <p>Going forward, we would advise management to refer closely to technical guidance issued, to ensure the draft annual report and</p>	<p>The annual report sections of the accounts (including the remuneration and staff report) have been updated to ensure compliance with FReM requirements and the NHS Accounts Manual.</p> <p>Action Plan (Appendix 1, point 2)</p>

Issue	Resolution
<p>accounts are of a good standard when first submitted to audit.</p> <hr/> <p>2. Bad debt provision</p> <p>Our review of the Board's bad debt provision found that there were a number of aged debts relating to Road Traffic Accident (RTA) claims. The Board's RTA trade receivables amounted to approximately £600,000 at year-end. These RTA claims are due from the compensator (insurance companies) to the Board for providing treatment to injured parties, with some cases dating back to 2005/06. The Board has chosen to apply a 10% general provision on RTA trade receivables over 3 months old.</p> <p>Guidance issued to Health Boards by the Department of Health titled '<i>NHS Injury Cost Recovery Scheme 2016-17</i>' advises that a bad debt provision of 23% for RTA debtors is an appropriate impairment to apply, based on historic cases settled in the NHS.</p> <p>We consider the bad debt provision to be understated by £78,000. This has been included in our schedule of unadjusted misstatements (see Appendix 3).</p> <p>We have advised finance officers to review these RTA trade receivables on an individual basis to ascertain if payments are likely. If payments are not forthcoming, these should be provided for in full or written off if deemed irrecoverable.</p> <p>Furthermore, it would also be advisable for the finance team to review its arrangements for pursuing recovery of these debts, as there is a risk that the Health Board is losing a source of income from these RTA cases.</p>	<p>The finance team have agreed to review their bad debt provision for RTA claims in 2017/18 to apply a more accurate provision for these doubtful debts.</p> <p>An adjustment has not been made to the 2016/17 accounts as the finance team require time and resources to complete a more in-depth review of these RTA cases, to consider if this national guidance is suitable for NHS Borders' local circumstances.</p> <p>Action Plan (Appendix 1, point 3)</p>
<p>3. Stock valuation</p> <p>Our audit of year-end stock certificates found that NHS Borders do not apply a standard approach to assigning stock valuations across various categories of stock. For example, an adjustment was made to the theatres stock valuation to discount fast-moving goods from the year-end stock count. The same treatment was not applied to pharmacies stock.</p> <p>Our assessment of the year-end stock valuation concluded that stock was understated by a value of £69,000, as there is no requirement in IAS 2 Inventories to exclude fast moving stock. This has been included in our schedule of unadjusted misstatements (see Appendix 3).</p> <p>We recommend finance officers review their stock valuation method to apply a more consistent approach. Furthermore, we recommend that a more formal write-off procedure is introduced to ensure obsolete stock is not included in the valuation.</p>	<p>Management have agreed to review their stock valuation method and write off procedures in 2017/18.</p> <p>An adjustment has not been made as management consider this to be an immaterial difference and would prefer to carry out a thorough review of this area before considering if an adjustment is required.</p> <p>Action Plan (Appendix 1, point 4)</p>
<p>4. Trade payables</p> <p>Our testing of trade payables and accruals found the following issues:</p> <ul style="list-style-type: none"> • Travel expenses accrual (total £154,000) - our review found that this accrual could be more accurately stated, as some expenses accrued were based on the assumption that employees continue to accrue the same expenses consistently throughout the year. Finance officers revised their calculations based on actual payments made in early 2017/18 and have confirmed that the accrual was overstated by £11,000. This has been included in our schedule of unadjusted 	<p>Management have agreed to revise their methodology for their travel expense accrual to check for reasonableness. An adjustment has not been made as management consider this to be an immaterial difference.</p>

Issue	Resolution
<p>misstatements (see Appendix 3).</p> <ul style="list-style-type: none"> • K067 account code – this account has a balance of £281,000 and relates to old trade payables balances. Finance officers are in the process of reviewing this account to clear out these transactions. We recommend officers continue this process in 2017/18 to determine if these are active trade payables balances or if an adjustment to the accounts is required. • SFR 30 trade payables balances – these balances relate to amounts owed by NHS Borders to other Health Boards, which are formalised by signed statements issued at year-end by the charging body. <p>In accordance with the NHS Accounts Manual, NHS Borders have agreed these balances with other Boards within a threshold of £100,000 per Board. However, our audit found that the overall difference between the NHS Borders' ledger balances and the balances stated by other Boards amount to £178,000 (with NHS Borders' trade payables overstated). Although the Board complies with the Accounts Manual threshold, we would recommend finance officers review their SFR 30 process to attempt to disclose a more accurate overall trade payables balance in the accounts.</p>	<p>Management have advised that they will continue to review this account code as a priority to check the validity of these trade payables balances.</p> <p>NHS Borders complies with the Accounts Manual in terms of the £100,000 per Board threshold. The NHS Accounts Manual details that the threshold is in place to prevent Boards having to commit resources to resolving immaterial differences.</p> <p>Management have advised they will consider reviewing their SFR 30 process if resources are available in 2017/18, but are content that they comply with the Accounts Manual.</p> <p>Action Plan (Appendix 1, point 5)</p>

5. Accounting policies

NHS Borders disclose accounting policies as required in the FReM. However, the Board use a standard set of NHS accounting policies, some of which have scope to be more tailored to the Board's arrangements.

We recommend management carry out a review of their accounting policies and update these to ensure they match actual practices at the Board. We advise that as part of this exercise, the estimated useful lives of the Board's assets are reviewed, as the current wide-ranging useful lives could be refined to disclose more useful information to the reader.

Finance officers have agreed to carry out a full review of their accounting policies in 2017/18.

[Action Plan \(Appendix 1, point 6\)](#)

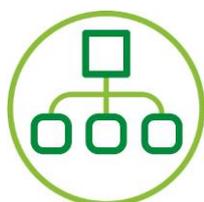
Source: Audit Scotland

Other findings

28. Our audit 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.

Part 2

Financial management



Main judgements

NHS Borders' financial sustainability in 2017/18 is a cause for concern, with challenging efficiency savings required in order to achieve financial balance.

NHS Borders has adequate systems for recording and processing transactions to ensure financial statements are appropriately prepared and the Board's assets are effectively managed.

The National Fraud Initiative (NFI) exercise has progressed well in recent weeks, but with some areas identified for improvement.

Financial performance in 2016/17

29. NHS Borders, 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	220.580	220.516	0.064
Non-core revenue resource limit	10.516	10.516	0
Total revenue resource limit	231.096	231.032	0.064
Core capital resource limit	5.034	5.027	0.07
Non-core capital resource limit	0	0	0
Total capital resource limit	5.034	5.027	0.07
Cash requirement	234.696	234.696	0

Revenue position

30. NHS Borders achieved a small underspend of £64,000 (0.03%) against its 2016/17 core revenue resource limit of £220.6 million. This outturn is consistent with the 2016/17 Local Delivery Plan (LDP) which forecasts a break even position. This was achieved despite considerable cost pressures and reflects the Board's focus on tight financial management.

31. However, the financial pressures the Board faces are significant. The recurring financial stability of the organisation continues to give cause for concern. The achievement of financial targets in 2016/17 were as a result of a number of non-recurring measures as follows:

- A transfer (as agreed with the Scottish Government) of £2.1 million was made from the Board's Capital Resource Limit to its Revenue Resource Limit.
- Additional funding of £1.2 million was returned to the Board from the Borders IJB. This was related to the return of £677,000 for NHS Borders' cost pressures (mainly relating to prescribing costs) and £500,000 for NHS Borders' financial impact from bed capacity (linked to the IJB's Set Aside Budget).
- Utilisation of contingency funding.

32. These short term measures are unsustainable. In future, the Board will find it extremely challenging to maintain financial balance and there is a real risk that it will not achieve its financial targets in 2017/18. The financial sustainability of the Board is discussed further in the next section of this report.

33. The Scottish Resource Allocation formula is used in the allocation of approximately 70% of the total NHS Budget between the 14 territorial NHS Boards in Scotland. This formula was developed by the National Resource Allocation Committee (NRAC) in 2007. NHS Borders is above parity. The Board's uplift for 2016/17 was 1.7% and the Board will continue to receive minimum levels of uplift.

Cost pressures

34. The main cost pressures in 2016/17 (as identified in the Financial Performance Return to 31st March 2017) were at Borders General Hospital (BGH) which was £4.9 million overspent. Pressures were evident across medical staffing (£2 million), nursing (£1.5 million) and supplies (£1.4 million) budgets. The increased activity and acuity of patients has also impacted on the supplies budgets. The External Healthcare Providers budget reported a £0.8 million overspend, with the main pressure being Unplanned Out of Area Activities (UNPACS). The General Practice prescribing budget also reported a £2.0 million overspend at the end of the financial year.

Capital position

35. NHS Borders received a total capital allocation of £5.034 million in 2016/17. This was made up of formulae allocation with additional resources for specific projects as per the approved 2016/17 Local Delivery Plan - Capital Plan.

36. The core allocation was almost fully utilised with only a small underspend of £7,000 reported in the financial statements for the year. The Board has prioritised its primary care premises modernisation programme during 2016/17 with investments made in Eyemouth and Knoll Health Centres, and a large investment of over £2.0 million allocated to the new Roxburgh Street GP surgery.

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

Efficiency savings

37. NHS Borders was required to make efficiency savings of 5.2% in 2016/17. This is equivalent to a savings target of £11.4 million. Savings of this magnitude are difficult to achieve. The Board struggled to achieve this target, reporting that £8.1 million of efficiency savings had been made in 2016/17.

38. The year-end positions showed that £3.8 million of savings were achieved on a recurring basis (47%) with the remainder on a non-recurring basis (53%). The planned recurring element of savings of £8.7 million (out of the total planned savings of £11.4 million) was not fully achieved.

39. Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing (recurring) savings in future years.

40. As illustrated in [Exhibit 5](#), NHS Borders has been increasingly reliant on non-recurrent savings in recent years. This situation is not sustainable and only buys the Board breathing space in the short term.

Exhibit 5

Savings – recurring and non-recurring



Source: Borders Health Board Annual Report and Accounts 2012/13 to 2016/17

2017/18 Financial Plan

41. The Director of Finance presented the NHS Borders' 2017/18 Indicative Financial Plan at the Board meeting on 6 April 2017. For the first time, the indicative revenue plan for the Board does not demonstrate a break-even position. This is due to the challenging level of efficiency savings required in 2017/18, which currently stands at £15.7m. There is a level of identified saving within the efficiency plan that releases an estimated £11.9m, giving an outstanding balance on the Board's efficiency programme of £3.8m. The Board continues to work with services to bridge this gap while continuing to ensure that the quality of care currently provided is not compromised.

Recommendation 7

The Board's efficiency programme will be key to achieving the challenging financial targets in 2017/18. The finance department should continue to work closely with budget holders to attempt to identify savings, and also work closely with the SGHSCD to identify a suitable course of action.

Budgetary processes

42. We reviewed NHS Borders' budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the Board's financial position.

43. We concluded that NHS Borders has appropriate budgetary monitoring and control arrangements that allow both members and officers to carry out scrutiny of the Board's finances. However, the Board must ensure budgetary controls continue to be prioritised in areas of overspend (such as nursing and medical staff costs at the Borders General Hospital), due to the significant financial pressures faced in 2017/18.

Internal controls

44. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS Borders has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

45. Our findings were included in an interim controls letter addressed to management. We presented this letter to the Audit Committee on 3 April 2017. We concluded that the Board has adequate systems for recording and processing transactions to ensure financial statements are appropriately prepared and the Board's assets are effectively managed. Management are addressing points raised in an action plan accompanying our letter.

46. Furthermore, we concluded that NHS Borders has systems of internal control which provide sufficient means of preventing and detecting material misstatement, error, fraud or corruption.

Prevention and detection of fraud and irregularity

47. We have a responsibility for reviewing the Board's arrangements for the prevention and detection of fraud. Our audit work in this area covered a number of aspects such as a review of fraud arrangements and whistleblowing procedures in place, and consideration of how the Board liaises with Counter Fraud Services.

48. We reported in our Annual Audit Plan that the Whistleblowing Policy (dated 2012) was due for review. The Board has since made progress on this action, as an updated draft policy has been circulated for consultation, with a final version of the policy due for completion in early 2017/18.

49. The Board has a Counter Fraud Operational Group, which is remitted by the Audit Committee to raise awareness of the fraud agenda and to take action to strengthen the Board's system of internal controls in terms of deterring and detecting fraud. The group is supported in its delegated remit by representatives from the NHS Scotland Counter Fraud Services team. The group reports progress to the Audit Committee following each of its quarterly meetings.

50. We conclude that NHS Borders is proactive in promoting fraud awareness and had adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

51. 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 6

Total number of matches



1,654

Number recommended for investigation



134

Completed/closed investigations



123

Source: NFI secure website: www.nfi.gov.uk

52. NFI activity is summarised in [Exhibit 6 above](#). The NFI secure website lists a total of 1,654 data matches. From this total, 134 are classed as 'recommended' matches (high risk) for investigation. Matches were made available at the end of January 2017. Updates on NFI activity are reported regularly by the Fraud Liaison Officer to the Audit Committee.

53. A delay with the service provider resulted in payroll matches only being released to all Scottish Health Boards for investigation in May 2017. These matches are usually prioritised by the Board for review. There are a total of 117 payroll matches for NHS Borders. As at 12 June 2017, the Board has processed 75 payroll matches, with a further 20 cases in progress. The Board has processed a further 48 creditors matches.

54. To date, there are no cases which have been concluded as a fraud or error. We note that the Board's investigation work has progressed well in recent weeks. However, our review has found aspects where the Board could improve its NFI arrangements:

- Officers did not complete the latest self appraisal checklist which is contained in the Audit Scotland NFI national report published in June 2016. We would advise the latest checklists are completed for future NFI exercises and presented to the Audit Committee, as it is a useful tool for the Board to reflect on the adequacy of its NFI arrangements.
- Only final outcomes are recorded on the NFI website, with supporting comments not always documented to support each conclusion. We would recommend management consider documenting brief comments on the NFI website to support their investigation work completed for the recommended (high risk) data matches. This will improve their audit trail of work completed and strengthen conclusions reached.

- The Board should consider if it has the necessary resources to complete investigation work timeously. While the Fraud Liaison Officer (FLO) has suitable experience to carry out investigations, there is scope for other senior members of the finance and payroll teams to be trained and given user access to the NFI website to support the FLO.

Recommendation 8

The Board should continue to progress NFI investigations in 2017/18. Officers should use the NFI website to document investigation work where possible, to support conclusions reached for recommended matches.

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

55. The Board has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. These Codes of Conduct are included within the Code of Corporate Governance which was refreshed this year and approved by the Board in October 2016. There are also established procedures for preventing and detecting bribery and corruption, including the Counter Fraud Policy.

56. 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. We are not aware of any specific issues we require to bring to your attention.

Part 3

Financial sustainability



Main judgements

NHS Borders has adequate financial planning arrangements in place based on the Local Delivery Plan.

The Board faces significant challenge to achieve efficiency savings in future years.

The Board has increased the use of temporary staff in recent years to cover rota gaps and vacancies, which is adding to financial pressures.

The Board must ensure that appropriate capital investment is in place to maintain its estate and IT infrastructure.

Financial planning

57. NHS Borders' draft Local Delivery Plan (LDP) for 2017/18 to 2019/20 sets out how the Board's financial, workforce and services plans implement its strategic priorities. The draft LDP was submitted on 31 March 2017, with the final version due for submission to the Scottish Government by 30 September 2017. The three-year financial plan is a key component of the LDP. It sets out how the Board plans to achieve financial balance over the period. Those three-year financial plans forecast a recurring deficit position.

58. The plans recognise significant cost pressures including staff pay costs, prescribing costs and the IJB related social funding allocation.

59. At the same time there are significant funding pressures over the period of the plan. For 2017/18, SGHSCD has confirmed a funding uplift of 1.5% (£2.9 million) including an IJB specific allocation of 1.1% (£2.1 million) to support additional costs within social care services. This leaves a balance of 0.4% (£0.8 million) available to NHS Borders to support additional inflationary and demand pressures. At this stage, the 2017/18 financial plan assumes that the base uplift for 2018/19 is likely to be 0% and for 2019/20 is likely to be no more than 1.0%. These figures should be considered as indicative at this time.

60. Rising costs and small increases in funding will make it challenging to achieve financial balance. The financial plan projects an efficiency savings gap of £3.8 million for the 2017/18 financial year. Efficiency savings will be crucial in bridging this gap next year and in future years.

Medium to long term efficiency savings

61. NHS Borders is required to achieve efficiency savings of 8.0% of baseline RRL in 2017/18. This is equivalent to a saving of £15.7 million with the majority (83%) planned to be on a recurring basis. This is a significant challenge for the Board given that £3.8 million of savings have yet to be identified for 2017/18.

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.

62. In each subsequent year of the plan NHS Borders is required to achieve further efficiency savings as illustrated in [Exhibit 7](#). The required savings levels are estimated for 2018/19 and 2019/20, however, the Board has yet to confirm plans to deliver these savings. The 2017/18 Indicative Financial Plan shows the Board facing an efficiency challenge of £10.7 million in 2018/19 and £7.8 million in 2019/20, which will be increased to £17.3 million and £14.4 million respectively if the underlying recurring deficit carried forward from 2017/18 remains unresolved.

Exhibit 7

Savings forecast 2017/18 to 2019/20

	2017/18 (£ million)	2018/19 (£ million)	2019/20 (£ million)
Recurring	13.0	8.7 - unidentified	6.1 - unidentified
Non-recurring	2.7	2.0 - unidentified	1.7 - unidentified
Total	15.7	10.7	7.8

Source: NHS Borders Indicative Financial Plan 2017/18

Asset management

63. NHS Borders 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 Borders' annual Property and Asset Management Strategy (PAMS) provides information on the condition of the Board's estate. The full 2016/17 Strategy is due to be presented to the Board in August 2017. An update report on the 2016/17 PAMS notes the newly identified key issues which will impact over the next five to ten year period. Key issues include:

- NHS Borders Clinical Services Review of In-patient Services - Health in Your Hands is currently underway and will be an integral component in shaping and informing the Clinical Strategy and future property and asset requirements beyond 2016/17.
- It has become clear following the publication of the 2015/16 PAMS and discussions over the last year that a substantial renewal of the Board's secondary care estate will be required in the next decade.
- In the case of Information Management and Technology (IM&T) there is an increasing likelihood that significant investment, linked to the age and fragility of the infrastructure, will be required.
- The impact of the new Borders Railway which opened in 2015 - There has been a small growth in population since this time. As well as posing challenges across all health services this creates specific hot-spots for some Primary Care facilities, and providing suitable additional capacity or growth potential has been a key element of the Board's Primary Care Premises Strategy.

65. The total figure for backlog maintenance has increased from £6.1 million in 2015/16, to £6.9 million in 2016/17. NHS Borders continues to have no backlog maintenance risks which are rated high risk.

66. One of the main items of more significant risk, Theatre Ventilation at the Borders General Hospital, was the subject of a specific Capital Allocation in the 2016/17 Capital Plan. However, the Board decided to postpone the planned replacement of the ventilation system in 4 of its 5 theatres and, instead, put in place annual inspections and performance data, to monitor the situation and highlight any change ensuring appropriate action is taken if required. This is now reflected in the Board's Capital Plan for 2017/18 which has been amended to include £2.1 million as uncommitted.

67. We reported in our 2016/17 Annual Audit Plan that the board faces a risk regarding its ageing IT infrastructure and is using a number of systems which are unsupported and restricting improvements. We will continue to monitor the board's capital investment in the coming financial year, to identify if the necessary resources are made available to maintain its estate, including investment in its IT infrastructure.

Workforce planning

68. 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.

69. NHS Borders is facing a number of these workforce issues. Of the current workforce of 3,718 staff, 1.02% are aged 65 and over, with the total workforce having an average age of 44. The Board's workforce plans are included in the draft 2017/18 Local Delivery Plan. The Plan sets out that NHS Borders is facing the following specific risks:

- Recruitment shortages in key specialties (e.g. Theatre Nursing, Intensive Care, Consultant Anaesthetists)
- Reduction in training grade doctors across key specialties
- Ageing workforce demographic in the Borders.

70. The Board has reported the following vacancy rates in 2016/17¹:

- Nursing and midwifery staff: 1,209 staff establishment as at 31 March 2017. The number of vacancies as at 31 March 2017 was 50.7 staff (4.2% of total nursing staff in post). This vacancy rate has remained stable throughout 2016/17. This is comparable to the national average of 4.5% as at 31 March 2017.
- Medical consultants: 99 staff establishment as at 31 March 2017. The number of vacancies was 5.6 staff (5.7% of consultants in post) as at 31 March 2017. The national average vacancy rate for consultants is 7.4%.

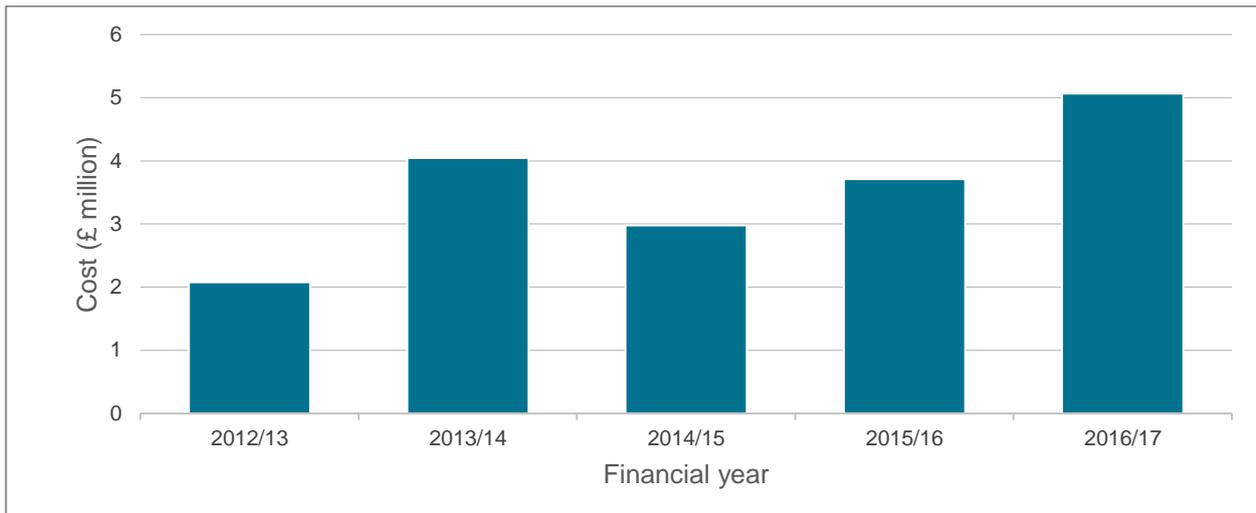
71. During 2015/16, NHS Borders published a 3-year Local Workforce Plan, in line with SGHSCD guidance. It detailed a range of plans across service areas based upon accepted methodologies for workforce planning and workload measurement (including the use of Nursing and Midwifery Workload and Workforce Planning tools).

¹ Source: ISD Scotland National Statistics, NHS territorial board vacancy rates as at 31 March 2017

72. 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 8](#). Temporary staff provide flexibility in the short term by providing cover for sickness absence and vacancies but that comes at a cost. Spending on temporary staff has increased from 2.0% in 2012/13 to 4.2% in 2016/17, based on a percentage of total staff costs.

Exhibit 8

Temporary staff costs



Source: Borders Health Board Annual Report and Accounts 2012/13 to 2016/17

73. 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. We are aware that the finance department is working closely with budget holders at the Borders General Hospital to try to improve rota management and reduce the use of temporary staff. However, it is clear that the use of agency workers (use of medical agency locums and agency nurses in particular) is relied upon to cover vacancies in the staff establishment, to ensure appropriate service delivery is maintained at the Board.

74. In addition NHS Borders, like most NHS Boards, is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. The sickness absence rate was 4.9% in 2016/17, compared to 4.4% last year. While disappointing this is better than the NHS Scotland average of 5.2%.

75. We will continue to monitor NHS Borders' workforce plans, particularly its use of temporary staff, as staff costs in total account for a significant proportion (54%) of the Board's annual revenue expenditure. Managing the staff costs budget effectively will be crucial to achieving financial targets in 2017/18.

Part 4

Governance and transparency



Main judgements

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

NHS Borders is open and transparent in the way it conducts its business.

NHS Borders should ensure the upcoming Board non executive appointments include members with recent and relevant financial experience.

The Board has scope to improve the process by which the Chief Executive (as Accountable Officer) receives assurances regarding the effectiveness of its system of internal control.

Governance structure

76. The overall purpose of the board of NHS Borders is primarily to review and ensure that efficient, effective and accountable governance arrangements are in place, and to provide strategic leadership and direction. The Board is supported by a number of standing committees which are directly accountable to it:

- Clinical Governance Committee
- Audit Committee
- Staff Governance Committee
- Public Governance Committee
- Research Ethics Committee
- Pharmacy Practices Committee.

Review of governance arrangements

77. During our interim audit, we carried out a review of the role of the Board. This followed up recommendations from a previous Audit Scotland national performance report published in September 2010. This assessed the governance, decision-making and scrutiny arrangements of the Board. Our review included an assessment of Board papers and minutes, attendance at Board meetings to observe members' interactions, and discussions with the Board Secretary and Deputy Director of Finance.

78. Our review concluded that appropriate arrangements are in place to ensure the performance and governance of the Health Board are effectively scrutinised by non executive members. The Board operates in a transparent manner, with meetings

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.

open to the public. All agendas, minutes and papers are published on the Health Board's website.

Board changes

79. We note there have been a number of recent changes in Board membership and senior management, summarised as follows:

- Two experienced Non Executive members left the Board in April 2017.
- A new Medical Director has been in post since February 2017.
- A new Director of Nursing & Midwifery was appointed in May 2017.

80. The Board plans to recruit three new Non Executive members in the summer of 2017. The Chair has emphasised the need to recruit members who have financial experience to add to the skill set of the Board. This will also aid succession planning as the Chair of the Audit Committee is also due to conclude his term in April 2018. We will continue to monitor the leadership and decision making of the Board and new senior management posts, to ensure appropriate governance arrangements remain in place.

Recommendation 9

We would support the preference expressed that amongst the new Board members there should be someone with recent and relevant financial experience, to enhance the skill set of the Board and to ensure the financial management of NHS Borders is effectively challenged and scrutinised.

Governance statement

81. Our financial statements audit included a review of the governance statement in the annual report and accounts. We are satisfied that the governance statement complies with the Scottish Ministers' guidance and that the disclosures are consistent with information gathered during the course of our audit work.

82. A number of risks are set out in the governance statement. These include issues such as: financial risk, due to the challenging financial targets to be achieved in 2017/18, IM&T infrastructure and clinical risks, workforce issues, aspects relating to health and social care integration, and delayed discharges. The statement also summaries internal audit findings and key reports issued in the year, with the overall conclusion in internal audit's annual reported noted as being 'Generally satisfactory with some improvements required'.

83. Our review of the governance statement also assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the Board's system of internal control which operated in the financial year. Our review noted that the Accountable Officer's main assurances are obtained from the following sources:

- Executive and Senior Managers across their respective directorates
- Statements of Assurance from the core committees of the Board, signed by each Chair
- The work of internal audit and external audit, and reports auditors provide to the Audit Committee.

84. Whilst these assurances are considered good practice, the Board has scope to improve the recording of assurances provided by Executive and Senior Managers in accordance with the Scottish Public Financer Manual (SPFM). This includes the completion of signed assurance statements by the Board's Executive Directors and the documentation of internal control checklists, to confirm the operation of internal controls in their respective directorates are adequate and effective. Completion of these assurance statements is common practice across other Health Boards and public sector bodies.

Recommendation 10

The process to collate year end assurances could be further strengthened by requesting the completion of assurance statements and internal control checklists by each Executive Director, as directed in the SPFM.

85. Overall we can conclude that the Board has adequate arrangements in place to support good governance and accountability. The Code of Corporate Governance provides a suitable basis for the Board's governance framework, which includes a Code of Conduct for Board members and NHS Borders staff to follow. Board members provide adequate scrutiny and challenge at regular bi-monthly meetings, to ensure the Board's performance is effectively reviewed.

Internal audit

86. Internal audit provides the Board and Accountable Officer with independent assurance on NHS Borders overall risk management, internal control and corporate governance processes such as the roles and responsibilities of committees.

87. The internal audit function is provided by PricewaterhouseCooper (PwC). We completed a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

88. To avoid 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 work on payroll controls.

89. We have also considered internal audit reports and findings as part of our wider dimension work. Worthy of noting is the internal audit report titled '*Use of Agency and Locum Staff*'². PwC classified this report as 'High Risk' and raised a total of five recommendations, including weaknesses in reporting and in the consideration of financial costs of agency and locum staff when bookings are made by the relevant service team.

90. We will monitor the Board's response to the recommendations raised in this report. We would emphasise the importance of financial controls in relation to the use of agency and locum staff, highlighting that this is a key area for the Board to ensure value for money and effective budgetary controls are in place.

Information Technology (IT) risks

91. We reported in our Annual Audit Plan a risk in relation to the Board's IT infrastructure. NHS Borders has an ageing IT infrastructure and is using a number of systems which are unsupported and restrict improvements. In addition, the resilience and disaster recovery arrangements in place are aspects of the Board's Information Management & Technology (IM&T) which require improvement.

² Internal audit report by PwC titled '*Use of Agency & Locum Staff*', published in March 2017.

92. On 12 May 2017, a number of health bodies in Scotland, including NHS Borders, were affected by a global ransomware cyber attack. NHS Borders IM&T quickly identified and isolated the initial attack points and were able to activate measures that prevented further spread of the identified malware. This restricted the scope of the incident to three remote sites (two GP practices and a community hospital), and the board's main corporate file store. This prompt action to prevent further spread meant that no patient services were compromised at any other NHS Borders site.

93. Upon receipt of official patches to detect and remove the vulnerability exploited by this cyber attack, a programme of emergency patching to desktop and server devices was initiated. Due to failure of the automated utility used to distribute the software update, this did not proceed as quickly as expected. A programme of manual intervention to install these updates on each device was required.

94. Following initial inspection of the impact of this cyber attack on the Board's corporate file-store, a full scan of all the data on it was commenced. This did not proceed as initially planned since an out-dated version of the scanning software was installed. Once this was corrected the full scan took longer than anticipated and full restoration of access to the board's key corporate back office data took 10 days.

95. It was clear from this incident that the finance department rely heavily on this local file-store to carry out with day to day business, and have no other back up system to use in its place. This in turn caused significant, unforeseen delay to the financial statements audit.

96. This incident has provided some practical experience of the business continuity plans that have been developed. Management should make sure that any lessons learned from this experience are fully captured and shared. The impact of this cyber attack also emphasised the reliance that NHS Borders currently place upon their ageing and unsupported IT infrastructure, emphasising the need for investment.

97. Due to the Board's financial pressures, full funding has yet to be secured to make all necessary IT upgrades. The Board's 2017/18 Indicative Financial Plan includes £950,000 for IM&T infrastructure as part of the prioritised capital schemes for the 2017/18 financial year. The Board will need to carefully manage and prioritise capital funding to the areas of its IT infrastructure which require the most attention.

Recommendation 11

We would advise the Health Board to carry out a review of the business continuity plans for their finance department. Furthermore, we recommend finance officers consider using the functionality available on the national eFinancials ledger system to identify if financial records could be stored across available areas to spread the risk of access.

Risk management

98. We have reviewed the Board's risk management arrangements in place, including a review of the Risk Management Policy and Risk Register which are reported to the Clinical Governance Committee and Audit Committee. The policy sets out the Board's Risk Management Framework which is based on a nationally recognised framework. This sets out the reporting arrangements in place to inform risks to the Board's various committees and groups. The framework sets out responsibilities of senior staff in these arrangements (Chief Executive and Directors), responsibilities of 'Risk Owners' set out in the Risk Register, and responsibilities of all of the Board's staff. The policy also covers the various risk levels reported in the Risk Register and how risks are to be escalated.

99. We have concluded that appropriate risk management arrangements are in place. The related policy and risk register have been deemed to be comprehensive for NHS Borders, with risks covering both clinical and non-clinical (e.g. financial) risks as appropriate.

Transparency

100. 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.

101. There is evidence from a number of sources which demonstrate the Board's commitment to transparency including the annual accountability review (where members of the public can attend). In addition, Board meetings are open to the public.

102. The Board has recently refreshed its complaints handling system, after conducting an improvement programme of the system in 2015/16. This programme included the Scottish Public Services Ombudsman (SPSO) meeting with the local complaints team and providing feedback. This process has resulted in the Board recently implementing the new NHS Scotland Model Complaints Handling Procedure with effect from 1 April 2017.

103. Overall, we concluded that the Board conducts its business in an open and transparent manner.

Health and social care

104. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on 1 April 2016. This brings together NHS and local council care services under one partnership arrangement for each area.

105. Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends, doing the things that give life meaning and value.

106. The Scottish Borders IJB is the partnership within NHS Borders' catchment area, with the IJB becoming fully operational on 1 April 2016. This IJB partnership is shared with Scottish Borders Council.

107. The IJB has agreed a strategic commissioning plan which details its local strategic objectives which are in accordance with the Nine National Health and Wellbeing Outcomes. For the early part of the year there was a focus on the set up and implementation of the new governance arrangements for the new entity, supported by NHS Borders and Scottish Borders Council. During the year the partnership has focused on reducing the number of delayed discharges and the number of inappropriate admissions to hospital.

108. NHS Borders delegated services and provided resources for those services during 2016/17 to the IJB. The Board's total contribution to the IJB for 2016/17 was £123.4 million.

109. NHS Borders has good arrangements in place to identify all financial transactions that relate to the IJB. There are also proper arrangements in place to agree the board's share of the IJB budget and to provide officers with appropriate financial information to enable Borders IJB to monitor its financial budget. NHS Borders have notified the IJB of its funding for 2017/18, which incorporates their share of the Health Board's efficiency requirements.

110. It is still too early for the Board or its partners to demonstrate any significant examples of new ways of working that promote integration or the impact or

improvements to services. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is due Spring 2018. We plan to use this to assess progress once the work on this report has been completed.

2020 Vision

111. In 2011 the Scottish Government set out 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.

112. The NHS Borders 2016/17 Local Delivery Plan (LDP) was approved by the Board in June 2016. The LDP includes details of the Board's Improvement Plan. This was the third year of the Improvement Plan which is intended to be a 5 year transformational plan setting out how the Health Board delivers on the 2020 Vision for NHS Scotland. The Board's plan is structured around priority areas of work, which include (but are not limited to) both scheduled and unscheduled care, health inequalities and prevention, mental health, and integration.

113. The LDP is subject to review and scrutiny by the Board. From our review of the LDP and supporting Board papers, we conclude that the Board is giving 2020 Vision appropriate profile and is developing plans to speed up progress towards the delivery of the 2020 vision. However, this needs to be set in the context of the Board's financial challenges, which are having an impact on the achievement of LDP standards. A review of the Board's performance against the LDP standards is included in the following section of this report.

Local Inspections

Healthcare Improvement Scotland

114. Healthcare Improvement Scotland (HIS) carried out a review of the care of elderly people at the Borders General Hospital (BGH) in 2016/17, publishing a report in August 2016. This inspection followed on from a HIS investigation regarding a complaint made in December 2015 to the Ombudsman which related to the care of elderly patients at the BGH. The report noted that NHS Borders has addressed a number of the concerns identified in previous reviews. As part of their inspection, HIS saw that patients are treated with compassion, dignity and respect, and interactions between patients and staff are positive. Patients are mostly positive about the care they receive. HIS found the arrangements in place to manage mealtimes for patients is variable and is an area identified for improvement.

Healthcare Environment Inspectorate

115. The Health Environment Inspectorate (HEI) carried out an unannounced safety and cleanliness inspection of BGH in November 2016. The HEI report (published in February 2017) was largely positive, including a positive finding regarding the cleanliness of medical equipment. One recommendation was raised in the report, advising the Board to raise ward staff awareness of the national facilities management tool audit activity that takes place in the wards and departments.

116. NHS Borders have good arrangements to report the outcomes of these local inspections at Board and committee meetings, with agreed action plans and officers identified to follow up on recommendations raised.

Equalities

117. The Equality Act 2010 introduced a new public sector 'general duty' that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years

thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

118. The last report the Board published was in March 2015 titled '*Equalities Mainstreaming Progress Report*'. Therefore the Board is now due to report its progress again. Officers have advised a progress report is due to be presented to the Board meeting in August 2017.

119. Once published we will review this progress report and conclude whether 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 published in 2013
- 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.

Good practice

120. In 2016 the Board implemented Patient Opinion, an online independent feedback service between patients and the health service. Patient Opinion enables the Board to engage constructively with patients and carers using the Board's services, respond to their concerns and share feedback with staff. The Board agreed in April 2017 to move to full subscription for this system which will mean that individual services will be able to review and respond to posts. Regular updates on patient feedback are provided to the Board.

121. We consider this feedback system an area of good practice, which enhances the Board's openness to patients and members of the public.

Part 5

Value for money



Main judgements

NHS Borders has a satisfactory performance management framework in place. This helps support the Board in its drive to achieve value for money and continually improve how it delivers services.

The financial challenge the Board is facing is having an impact on the achievement of key performance targets, particularly treatment time targets.

Performance management

122. The Scottish Government monitors how NHS Borders performs against targets it has set in its national performance framework. These include 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.

123. The Board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Strategy and Performance Committee which meets quarterly. Performance reports are also presented at Board meetings. We have attended a number of meetings and reviewed papers received by members, to assess how well the Board is scrutinising performance.

124. Each meeting of the Strategy and Performance Committee receives an integrated corporate performance report. Performance is reported using 44 key indicators (including the 31 LDP Standards for 2016/17). Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

125. Committee members receive supplementary reports on specific aspects of performance namely waiting times and the financial position. These enable members to focus on key risks relating to access to treatments and financial sustainability.

126. We concluded that the NHS Borders has a satisfactory performance management framework in place. This helps it achieve value for money and continually improve how it delivers services.

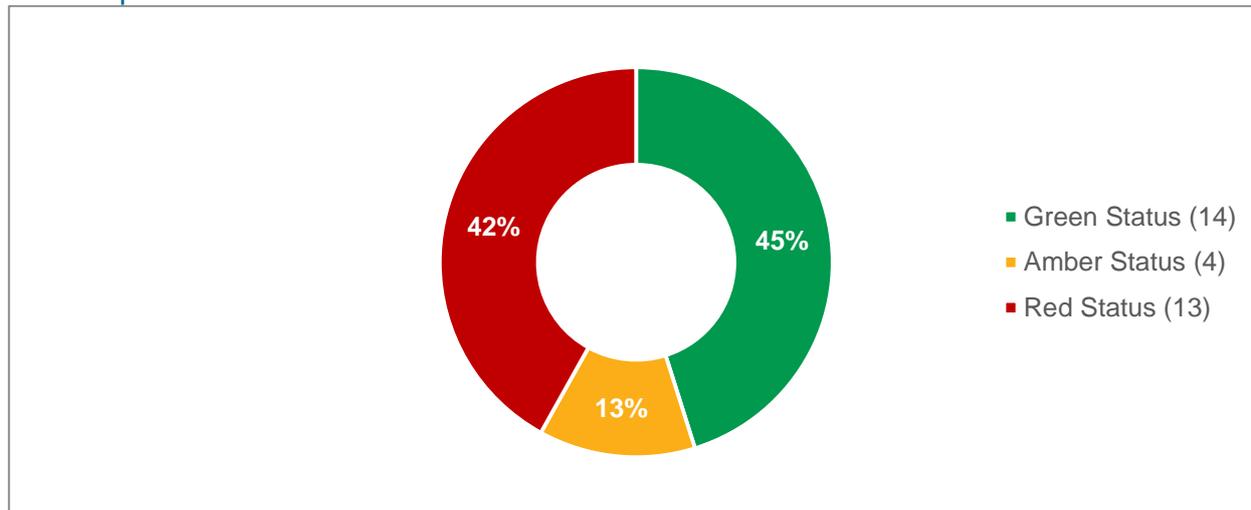
Overview of service performance

127. The Board's performance against its LDP Standards as summarised in the 2016/17 Annual Report and Accounts. An overview of the Board's performance, based on the most up-to-date position at the end of February 2017, is summarised in [Exhibit 9 below](#).

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

Exhibit 9

Overall performance



Source: NHS Borders Performance Scorecard February 2017

128. At the end of February 2017, of the 31 Local Delivery Plan Standards, 14 were categorised as green, 4 were amber, and 13 were red, where:

- green means target standard is being met or exceeded
- amber means performance is almost achieving target standard (within the Board's local tolerance, set within 10% of the target)
- red means targets out with acceptable standards (out with the Board's local tolerance set at 10% below target).

129. Overall, NHS Borders performs reasonably well with a number of targets categorised as green or amber. As an example of good performance, the Board has consistently achieved or exceeded the target set for Cancer Waiting Times.

130. Against a target for 95% of all patients requiring treatment for cancer being seen within 31 days of diagnosis, the Board achieved a 100% compliance rate in 8 out of the 10 months to January 2017, and has met or exceeded the target consistently throughout 2015/16 and 2016/17.

131. The Board has also consistently met the 62 day target for patients with a suspicion of cancer to be seen. This target was met throughout 2015/16 and 2016/17, with the exception of one month.

132. However, there are 13 targets (42% of targets), including the 12 week Treatment Time Guarantee and Sickness Absences, that are out with acceptable standards and more details on these are provided in [Exhibit 10](#) below.

Exhibit 10

Performance against key LDP standards (illustrative examples)

Target/standard	Performance at February 2017 ¹	Action being taken by Board
<p>12 Weeks Treatment Time Guarantee (TTG)/</p> <p>Proportion of patients that were seen within 12 weeks.</p> <p>Target is 100%</p>	<p>34 patients breached their TTG date in February 2017.</p> <p>The Board failed to meet this target in 10 of the 11 months to February 2017.</p>	<p>Cancelled patients are rebooked as soon as possible to accommodate their TTG date.</p> <p>An Institute for Healthcare Optimisation (IHO) project is looking to address surgical flow.</p> <p>Risk of cancellations is reviewed on a weekly basis and appropriate action taken.</p>
<p>Sickness Absence/</p> <p>Maintain sickness absence rates below 4%</p>	<p>The Board had a sickness absence rate of 5.2% in February 2017.</p> <p>Cumulative sickness absence for the year to February 2017 is 4.9%. This is 0.3% lower than the NHS Scotland average of 5.2%.</p>	<p>HR continues to be a support service to the Clinical Boards by providing advice and support in managing sickness absence.</p> <p>An Attendance Management and Wellbeing project has informed a new action plan for 2017/18.</p> <p>The Board has set up a Sickness Absence Policy Working Group. The Group analyses absence data and implements action plans for areas with high absence rates.</p>

Note: 1. Figures are still to be validated by NHS Information Services Division.

Source: NHS Borders Performance Scorecard February 2017

133. The corporate performance reports include actions being taken by the Board to improve performance against the LDP standards. Actions reported include on-going activities identified by service leads to maintain existing standards as well as further actions being taken to drive improvement where standards are not currently being met.

134. The Board also intends to carry out a performance 'deep dive' within those areas where standards are not being met, with this being undertaken through the Strategy & Performance Committee throughout 2017 and into 2018.

135. The Board faces on-going financial challenges and it is recognised that as the Board prioritises achieving financial balance, these may impact on the Board's ability to achieve its performance standards.

Shared services

136. 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 to provide greater coordination across Boards and various healthcare programme and initiatives.

National performance audit reports

137. 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 national reports. These are outlined in [Appendix 4](#) accompanying this report. We consider the following reports to be of direct interest to the Board:

- National Fraud Initiative Scotland (published June 2016)
- Social work in Scotland (published September 2016)
- NHS in Scotland 2016 (published October 2016)
- Scotland's NHS Workforce (published February 2017).

138. The Board has good arrangements in place for reviewing national reports, including any locally agreed actions. This is primarily completed via the Audit Committee, where the most recent national reports are included in the committee papers. The Director of Finance then summarises the key findings in these national reports and any local impact for NHS Borders.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Page no.	Issue/risk	Recommendation	Agreed management action/timing
8	<p>1. Financial statements preparation</p> <p>The draft annual report and accounts provided on day one of the financial statements audit were incomplete, with sections of the annual report and notes to the accounts outstanding. In addition, working papers received on day one of the audit were not fully complete and for some account areas, lacked sufficient detail to progress the audit timeously.</p>	<p>We recommend that finance officers review their financial statements timetable and improve the detail provided in their working papers. Further discussions with other Health Boards would be advisable on this matter.</p>	<p>We have agreed to meet with the external audit team during 2017/18 to agree the necessary improvements to working papers, and to discuss lessons learned from the 2016/17 audit process.</p> <p>Responsible Officer: Deputy Director of Finance (Financial Accounting)</p> <p>Target date: September 2017, with further review in March 2018.</p>
9	<p>2. Annual Report</p> <p>The narrative sections of the annual report and accounts required a significant re-draft to ensure compliance with the Financial Reporting Manual (FReM).</p>	<p>We recommend management review the latest technical guidance issued each financial year to ensure all disclosure requirements are reflected in the annual report and accounts.</p> <p>Guidance such as the NHS Accounts Manual and FReM disclosure checklists should be referred to closely.</p>	<p>We accept this recommendation and will refer to the necessary technical guidance going forward.</p> <p>Responsible Officer: Director of Finance</p> <p>Target date: March 2018.</p>
10	<p>3. Bad debt provision</p> <p>Our assessment of the Board's bad debt provision in relation to Road Traffic Accident (RTA) claims has found that this impairment has been understated, in relation to national guidance issued.</p>	<p>We advise finance officers to review RTA trade receivables on an individual basis to ascertain if payments are likely. If payments are not forthcoming, these should be provided for in full, or written off if deemed irrecoverable.</p>	<p>We accept this recommendation and will review our methodology applied to the bad debt provision. Our review will consider if the national guidance issued is appropriate to the Board's local circumstances.</p> <p>Responsible Officer: Deputy Director of Finance (Financial Accounting)</p> <p>Target date: December 2017.</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing
10	<p>4. Stock valuation</p> <p>Our audit of year-end stock certificates found that NHS Borders do not apply a standardised approach to assigning stock valuations across various categories of stock.</p>	<p>We recommend finance officers review their stock valuation method to apply a more consistent approach. Furthermore, we would recommend that a more formal write-off procedure for stock is introduced to ensure obsolete stock is not included in the valuation.</p>	<p>We accept this recommendation and will review our stock valuation methods in 2017/18. This will include a review of our inventory policies to formalise stock write-off procedures.</p> <p>Responsible Officer: Deputy Director of Finance (Financial Accounting)</p> <p>Target date: February 2018.</p>
10	<p>5. Trade Payables</p> <p>Our audit of trade payables found that there is scope to review the methodology applied to accruals which require estimation and judgement.</p> <p>In addition, there are trade payable account codes which require review in 2017/18 to ensure all balances are valid and accurately reflect the Board's year-end creditor total.</p>	<p>We recommend finance officers review the methodology applied to estimated accruals, including their annual leave accrual and travel expenses accrual, to identify if estimations are still reasonable to the Board.</p>	<p>We accept this recommendation and will carry out a review of our accruals methodology to ensure estimations and assumptions used remain appropriate.</p> <p>Responsible Officer: Deputy Director of Finance (Financial Accounting)</p> <p>Target date: December 2017.</p>
11	<p>6. Accounting Policies</p> <p>The Board use a standard set of NHS accounting policies, some of which have scope to be tailored to local arrangements. The policy applied to the estimated useful lives of fixed assets has scope for refinement.</p>	<p>We recommend management carry out a review of their accounting policies and update these to ensure they match actual practices at the Health Board.</p> <p>We advise that as part of this exercise, the estimated useful lives of the Board's assets are reviewed, as the current wide-ranging useful lives could be refined to disclose more useful information to the reader.</p>	<p>We accept this recommendation and will carry out a full review of our current accounting policies in 2017/18.</p> <p>Responsible Officer: Deputy Director of Finance (Financial Accounting)</p> <p>Target date: December 2017.</p>
15	<p>7. Financial sustainability and efficiency savings</p> <p>The 2017/18 Indicative Financial Plan does not report a balanced, break even position. The Board is required to deliver £15.7 million of savings. The Board has yet to identify £3.8 million of the savings required for next year. Of those savings identified to date, 33% are classified as</p>	<p>The Board should ensure that detailed saving plans are developed identifying how the £15.7 million of savings in 2017/18 will be made.</p> <p>The Board should work closely with the SGHSCD to discuss ongoing financial pressures and actions required.</p>	<p>The Board continues to work closely with services to bridge this savings gap while continuing to ensure that the quality of care currently provided is not compromised.</p> <p>Responsible Officer: Director of Finance</p> <p>Target date: Ongoing throughout 2017/18.</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing
	<p>being high risk, and therefore may not materialise.</p> <p>There is a risk that the Board may not be able to deliver the targeted savings in 2017/18, leading to non-achievement of finance targets next year.</p>		
17	<p>8. NFI progress</p> <p>The Board should review the following aspects of its NFI arrangements:</p> <ul style="list-style-type: none"> • The self appraisal checklists should be completed prior to starting each NFI exercise. • The NFI website should be used more effectively to document investigation work carried, to support conclusions reached for recommended matches. • The Board should consider if it has suitable resources to complete investigations timeously after matches have been released. 	<p>We recommend the Board continues to progress its investigation work in early 2017/18. Officers should use the NFI website to document investigation work where possible, to support conclusions reached for recommended matches.</p>	<p>We accept these recommendations made by external audit. We are satisfied that sufficient investigation work is completed prior to reaching conclusions for each match, but acknowledge the NFI website could be used further to document actions taken.</p> <p>Responsible Officer: Deputy Director of Finance (Financial Accounting)</p> <p>Target date: October 2017.</p>
23	<p>9. Board member appointments</p> <p>The Board's Chair has highlighted the aim of recruiting new non executive members who have financial expertise. We would emphasise this to further enhance the skill set of the Board.</p> <p>There is a risk that the financial management of the Health Board will not be scrutinised effectively.</p>	<p>NHS Borders should ensure new Board member appointments have recent and relevant financial experience.</p>	<p>The upcoming recruitment of new non executive directors will review the skill set required for the Board.</p> <p>Responsible Officers: Chair and Chief Executive</p> <p>Target date: August 2017.</p>
24	<p>10. Assurance statements</p> <p>The Chief Executive as Accountable Officer does not obtain direct assurances from Executive Directors, as part of the assessment of the adequacy and effectiveness of the Board's systems of internal</p>	<p>We recommend that each Executive Director complete annual assurance statements and internal control checklists as per SPFM guidance, to strengthen the Board's governance procedures.</p>	<p>We will review the relevant SPFM guidance and complete the template assurance statements and checklists in the next financial year.</p> <p>Responsible Officer: Deputy Director of Finance (Financial Accounting)</p>



Page
no.

Issue/risk

Recommendation

Agreed management
action/timing

control.

Target date: March 2018.

25

11. Business Continuity Plans

The cyber attack on 12 May 2017 had a significant impact on the day to day activities of the finance department and delayed the financial statements audit. The local file-store is heavily relied upon to store financial records.

We advise management carry out a review of their business continuity plans for the finance department.

We recommend finance officers consider using the functionality available on the national eFinancials ledger system to identify if financial records could be stored across available areas to spread the risk of access.

The Board plan to carry out a full review of its business continuity plans in light of the recent cyber attack. This will include an assessment of the finance department's continuity plans.

Responsible Officer: Interim Director of Public Health

Target date: December 2017.

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 conclusions. 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 to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Reviewed accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluated significant transactions that were outside the normal course of business.</p>	<p>We substantively tested a sample of journal entries and agreed to source documentation. There were no issues to report.</p> <p>We reviewed accounting policies in the financial statements. We have reported in Appendix 1 that NHB Borders has scope to review their policies to ensure these are relevant to their local circumstances.</p> <p>We carried out detailed testing of trade payable and trade receivables balances to ensure they were posted to the correct financial year. There were no matters to report.</p>
<p>2 Risk of fraud over income</p> <p>NHS Borders receives income from a variety of sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Performed analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Evaluated the effectiveness of systems of internal control for income recognition and recording.</p>	<p>Sample testing of unusual items did not identify any suspicious transactions.</p> <p>We assessed the controls in place for income recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified and we were able to conclude that controls were operating effectively.</p> <p>The monitoring and detection arrangements for fraud in relation to FHS were reviewed and were found to be appropriate and operating effectively.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Financial sustainability</p> <p>As at 30 September 2016, NHS Borders projected an overspend of £4.7m against its Revenue Resource Limit. There is a substantial risk that the Board will not achieve its year end financial target.</p>	<p>Worked closely with senior finance staff regarding budget plans.</p> <p>Monitored monthly Financial Performance Returns submitted to the Scottish Government.</p> <p>Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial period.</p>	<p>NHS Borders achieved their financial targets in 2016/17.</p> <p>However, the Board achieved this using short term measures and non-recurring savings. The Board faces a significant challenge to continue to meet its targets in 2017/18 and achieve efficiency savings.</p> <p>Our substantive testing focused on regularity and cut-off assertions to ensure expenditure and income transactions were accounted for in the correct financial year. There were no issues to report.</p>
<p>4 Group accounts with IJB</p> <p>2016/17 is the first year that NHS Borders is required to consolidate the financial results of Borders IJB. To meet sign-off deadlines it is essential that the IJB financial results are submitted on time. In this first year, there is an increased risk of error in the consolidation process.</p>	<p>Reviewed the finance team's plans for incorporating the IJB transactions into the accounts.</p> <p>Specific audit testing of group accounts.</p> <p>Followed up recommendations of Audit Scotland national report relating to IJBs.</p> <p>Reviewed internal audit work.</p>	<p>The NHS Borders group accounts included the required disclosures of the Borders IJB transactions. Supporting narrative has been included in the financial statements to explain this new accounting treatment.</p> <p>We carried out focused testing of Borders IJB income and expenditure transactions. There are no issues to report.</p> <p>There were no significant risks reported from internal audit's review of IJB arrangements and accounting treatment.</p>
<p>5 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets, provisions and accruals. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Focused substantive testing during the financial statements audit in key areas.</p> <p>Reviewed accounting policies to ensure these were reasonable.</p>	<p>Our findings in Appendix 1 note that the Board has scope to review their methodology for areas of estimation and judgement, such as their policy applied to their bad debt provision and methodology for estimating accruals.</p> <p>We have raised a recommendation in Appendix 1 for the Board to review its accounting policies.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>6 IT infrastructure</p> <p>NHS Borders has an ageing IT infrastructure and is using a number of systems which are</p>	<p>Communicated with IM&T and finance staff to monitor the business case being prepared for submission to the Scottish</p>	<p>The Board's IM&T investment plans and roadmap as approved by the Board in May 2017 has been shared with the Scottish</p>

Audit risk	Assurance procedure	Results and conclusions
<p>unsupported and restricting improvements. In addition, the resilience and disaster recovery arrangements in place are aspects of IM&T which require improvement.</p>	<p>Government. Monitored capital plans for investment required for IM&T.</p>	<p>Government. Discussions with SGHSCD continue to agree capital funding required for the Board's IM&T Investment plans.</p>
<p>7 Policies and procedures</p> <p>From our review of governance arrangements in place, the following documents were found to be due for update:</p> <ul style="list-style-type: none"> • Whistleblowing Policy (dated 2012) • Information Governance Strategy (dated 2010) • Information Governance Policy (dated 2012) • Disaster recover plan (dated 2013) <p>There is a risk that the current policies are not appropriate to support the Board in meeting its objectives.</p>	<p>Monitored process for reviewing policies and procedures.</p> <p>Ensured policies are fit for purpose and made available to staff.</p>	<p>The Board's Whistleblowing Policy has been issued for consultation and an updated policy is due to be agreed in early 2017/18.</p> <p>Updated versions of the Information Governance Strategy and Information Governance Policy are due to be updated and presented at the Information Governance Committee in September 2017.</p> <p>The IT Services group are scheduled to work on a plan to improve resilience, which will include Disaster Recovery Planning. The proposal is to have some of the key resilience components in place and an updated recovery plan in place by the end of 2017.</p>

Appendix 3

Summary of unadjusted misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £26,000. However, we consider these differences for the Health Board are potentially material by nature, due to the requirement to achieve a break-even position against set resource limits.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these differences are below our performance materiality level as explained in [Exhibit 2 \(page 8\)](#). We are satisfied that these differences do not have a material impact on the financial statements.

No.	Account areas	Consolidated Statement of Comprehensive Net Expenditure		Consolidated Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Bad debt provision				
	Dr Expenditure	78			
	Cr Bad debt provision				(78)
2	Stock valuation				
	Dr Stock			69	
	Cr Expenditure		(69)		
3	Travel expenses accrual				
	Dr Accruals			11	
	Cr Expenditure		(11)		
	Net impact	78	(80)	80	(78)
	Impact on Revenue Resource Limit (RRL)		(2)	2	

Notes: Explanations for these unadjusted misstatements are included in Exhibit 3 on pages 9 & 10.

Appendix 4

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update  Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review  Managing new financial powers: an update

NHS Borders

2016/17 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk