

NHS Borders

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for NHS Borders

December 2017

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for NHS Borders. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and accounting policies.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income and expenditure</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 which requires an audit response. The Code of Audit</p>	<p>Effective budget monitoring by management.</p> <p>Internal audit coverage.</p> <p>Regular monitoring of national fraud reports.</p> <p>The Counter Fraud Group oversees the Board's fraud arrangements.</p> <p>Counter Fraud Policy and</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Detailed substantive testing of income and expenditure focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative data matches.</p>

Audit Risk	Source of assurance	Planned audit work
<p>Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies which have an overall net expenditure.</p>	<p>Whistleblowing Policy in place.</p>	
<p>3 Financial sustainability</p> <p>As at 30 September 2017, NHS Borders reported a year to date overspend of £5.0 million against its Revenue Resource Limit. The Board is planning to implement a number of actions to reduce this overspend, but still forecast a year-end overspend position of £1.5 million against budget. There is a substantial risk that the Board will not achieve its year-end financial target.</p>	<p>Agreement of financial plans and ongoing discussions with Scottish Government.</p> <p>Effective budget monitoring by management.</p> <p>Development of efficiency savings programme.</p> <p>Regular reporting to the Board.</p>	<p>Liaise closely with senior finance staff regarding budget plans.</p> <p>Monitor monthly Financial Performance Returns submitted to the Scottish Government.</p> <p>Focussed cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial period.</p> <p>Review use and cost of agency staff.</p>
<p>4 Accounting for IJB transactions</p> <p>2017/18 will be the second year that NHS Borders is required to consolidate the financial results of the Borders Integration Joint Board (IJB). To meet sign-off deadlines it is essential that the IJB financial results are submitted on time and accurately disclosed in the draft group accounts, ready for the financial statements audit.</p>	<p>Discussions between the Board's finance team and Scottish Borders Council regarding the timetable for draft accounts.</p> <p>Guidance from NHS Technical Accounting Group.</p> <p>Timetable for implementation of consolidated accounts.</p>	<p>Review the finance team's plans for incorporating the IJB transactions into the accounts.</p> <p>Gain assurances from the Scottish Borders Council external audit team over the accuracy of IJB transactions.</p> <p>Specific substantive testing of IJB income and expenditure relating to NHS Borders.</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 accruals and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Effective budget monitoring by management.</p> <p>Regular reporting to the Board.</p> <p>Annual Accounts Sub Group will review working papers prepared for audit and account areas subject to judgement and estimation.</p>	<p>Focused substantive testing during the financial statements audit of key areas.</p> <p>Review of accounting policies to ensure these are reasonable.</p> <p>Review of trade payable categories and accruals we identified as areas of improvement last year.</p>
<p>Wider dimension risks</p>		
<p>6 Information governance</p> <p>We reported last year that the Board is overdue to review its Information Governance Strategy (dated 2010) and Information Governance Policy (dated 2012). These documents have yet to be revised. The new EU General Data Protection Regulation (GDPR) comes into force for all public bodies in May 2018.</p>	<p>The Information Governance Committee oversees this area of the Board.</p> <p>Discussions are ongoing through a national forum and with neighbouring Health Boards to potentially introduce national/regional Information Governance policies and procedures.</p>	<p>Monitor process for reviewing policies and procedures.</p> <p>Ensure policies are fit for purpose and made available to staff.</p> <p>Review ongoing work plan for GDPR implementation.</p>

Audit Risk	Source of assurance	Planned audit work
Failure to comply with new GDPR data handling arrangements could potentially result in the Board incurring fines.	NHS Borders are carrying out a Gap Analysis in response to the GDPR Readiness Checklist issued by NHS Scotland.	

Reporting arrangements

4. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December. NHS Borders are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk after the Board's annual report and accounts have been laid before the Scottish Parliament.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to NHS Borders and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit Committee/ Board Date
Annual Audit Plan	31 December 2017	11 December 2017
Interim Report/Letter	31 March 2018	21 March 2018
Annual Audit Report	30 June 2018	14 June 2018
Independent Auditor's Report	30 June 2018	28 June 2018

Audit fee

8. The audit fee for the 2017/18 audit of NHS Borders is £122,790 (2016/17: £129,060). In determining the audit fee we have taken account of the risk exposure of NHS Borders, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of a complete set of unaudited NHS Borders annual report and accounts, and a full working papers package on 7 May 2018.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may

also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee, Board and Accountable Officer

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the financial statements does not relieve management, the Audit Committee or the Board, as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

13. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

14. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of NHS Borders and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how NHS Borders will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income
- whether the Remuneration and Staff Report has been properly prepared in accordance with legislation and other reporting requirements
- the consistency of both the Governance Statement and Performance Report with the financial statements.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

16. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

17. We calculate materiality at different levels as described below. The calculated materiality values for NHS Borders are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross budgeted expenditure for the year ended 31 March 2018 based on the latest Financial Performance Return available.	£2.5 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 planning materiality.	£1.25 million
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 1.5% of planning materiality.	£40,000

18. We review and report on other information published with the financial statements including the Management Commentary, Governance Statement and the Remuneration and Staff Report. Any issue identified will be reported to the Audit Committee.

Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee and Board meeting dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of a complete set of the unaudited NHS Borders Annual Report and Accounts, with full working papers package	7 May 2018
Latest date for final clearance meeting with Director of Finance	1 June 2018
Agreement of audited unsigned financial statements	8 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	14 June 2018
Independent auditor's report signed	28 June 2018
Submission of Minimum Data Set	29 June 2018

Integration Joint Board

20. The 2017/18 financial year will be the second year NHS Borders will be required to consolidate the financial results of the Borders Integration Joint Board (IJB) in its annual accounts. The Scottish Borders Health and Social Care Partnership's budget will be directed by the Borders IJB. The Partnership's total delegated budget in 2017/18 from NHS Borders is £120.9 million. This accounts for approximately 48% of NHS Borders' overall annual budget. As noted in [Exhibit 1](#), there is a risk of error in processing the required consolidation accounting entries and a risk of late submission of the IJB financial results. The Director of Finance should ensure that a management review is planned and that a timetable is in place to oversee this consolidation process for preparing the group accounts.

21. We will plan our work to ensure that the IJB results have been consolidated appropriately and disclosed accurately in the NHS Borders group accounts.

22. The IJB is undergoing changes to its management team. A new IJB Chief Officer was appointed in October 2017. The IJB Chief Officer is currently working with the Scottish Borders Council Chief Finance Officer and the NHS Borders Director of Finance to recruit a new IJB Chief Finance Officer. We will continue to monitor the leadership arrangements of the Borders IJB.

23. The Care Inspectorate and Health Improvement Scotland published a joint inspection of services for older people in the Scottish Borders in September 2017¹, assessing the services provided by the Scottish Borders Health and Social Care Partnership. The report raised 13 recommendations for the Partnership; including (but not limited to):

- a need for more effective consultation with stakeholders on its vision and service redesign
- improvements required for performance reporting
- the development of its joint approach to early intervention and prevention services, so that it continues to improve the range of services working together that support older people to remain at home and help avoid hospital admission
- the need for the Partnership to review its delivery of care at home, care home and intermediate care services to better support a shift in the balance of care towards more community based support.

24. Borders IJB, with support from NHS Borders and the Scottish Borders Council, should ensure appropriate action is taken for each of the recommendations raised in this inspection report.

Internal audit

25. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function.

Adequacy of Internal Audit

26. Internal audit at NHS Borders is provided by PricewaterhouseCoopers (PwC). As PwC are the internal auditors for a number of shared clients with Audit Scotland, we plan to complete a central review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). This review

¹ Services for older people in Scottish Borders, Care Inspectorate and Health Improvement Scotland, September 2017

will be completed by our NHS Greater Glasgow & Clyde external audit team before the end of the calendar year.

27. In the meantime, based on a review of internal audit's plans for 2017/18, we intend to place reliance on their work as outlined below.

Areas of Internal Audit reliance

28. To support our audit opinion on the financial statements we will consider the following planned internal audit reviews:

- Budget Management & Financial Reporting
- Financial Efficiency Savings.

29. In respect of our wider dimension audit responsibilities we will also review other areas of internal audit work including:

- Cyber Security Maturity
- Business Continuity Planning
- Health and Social Care Integration – Risk Management
- Clinical Governance
- Gifts & Hospitality.

Information Management & Technology (IM&T)

30. We reported last year the Board has an ageing IT infrastructure and is using a number of systems which are unsupported and restricting improvements. In addition, the resilience and disaster recovery arrangements in place are aspects of IM&T which require improvement.

31. The Board's IM&T investment plans and roadmap as approved by the Board in May 2017 was shared with the Scottish Government. This included a request for additional funding for these IT improvements in the coming years. A sum of £2million has recently been confirmed (October 2017) from the Scottish Government's eHealth department for the 2017/18 financial year. We have been advised by management that they are in the procurement stage for the Board's prioritised IM&T projects, and a full IM&T capital plan is due to be presented to the Board for approval at its meeting on 7 December 2017. We will review these plans when available and report back to the Audit Committee on the Board's capital investment, as part of our Annual Audit Report.

32. The Board will also need to consider the cyber resilience strategy recently published by the Scottish Government. A Public Sector Action Plan 2017/18² has been developed by the Scottish Government and the National Cyber Resilience Leaders' Board, with the aim of establishing a wider culture of cyber resilience in Scotland. NHS Borders should consider the supplementary 'Implementation Toolkit', which provides key information for public sector bodies to implement the Action Plan on cyber resilience. The Action Plan includes a timeline for organisations to complete key actions. The first action requires '*all Scottish public bodies to undergo a Cyber Essentials pre assessment*' (funded by the Scottish Government) by the end of March 2018. We will monitor NHS Borders response to this Action Plan.

² A Cyber Resilience Strategy for Scotland: Public Sector Action Plan 2017-18, Scottish Government, November 2017

National Fraud Initiative

33. NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

34. The current data matching exercise collected data in October 2016. Match investigation work began in January 2017 and has continued throughout the year. We have monitored the Board's participation and progress with the NFI exercise and included recommendations in our 2016/17 Annual Audit Report.

35. Health Boards were expected to have completed their NFI investigation work by the end of September 2017. NHS Borders has now largely completed their investigations, with a few remaining queries still outstanding as at November 2017. No cases of fraud or error have been found to date. We are due to submit a final NFI audit questionnaire by the end of February 2018 to note our final conclusions on the Board's NFI activity, by which time all investigation work should be fully complete. We will report any issues found to the Audit Committee in due course.

Audit dimensions

36. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

37. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability. We define this as short term (up to two years) medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and longer term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the Board can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Budget pressures

38. The Board faces significant challenges regarding its financial position. As noted in [Exhibit 1](#), there is a substantial risk that the Board will not achieve its year-end financial target, with a year to date overspend (as at 30 September 2017) of £5.0 million reported on its Revenue Resource Limit³. The Board is planning to implement a number of actions (discussed below) to reduce this overspend. Based on the information available as at September 2017, the Board is forecasting a year end overspend position of £1.5 million. This position reflects the limited progress made implementing efficiency savings plans. The key operational pressures which have contributed to the overspend are:

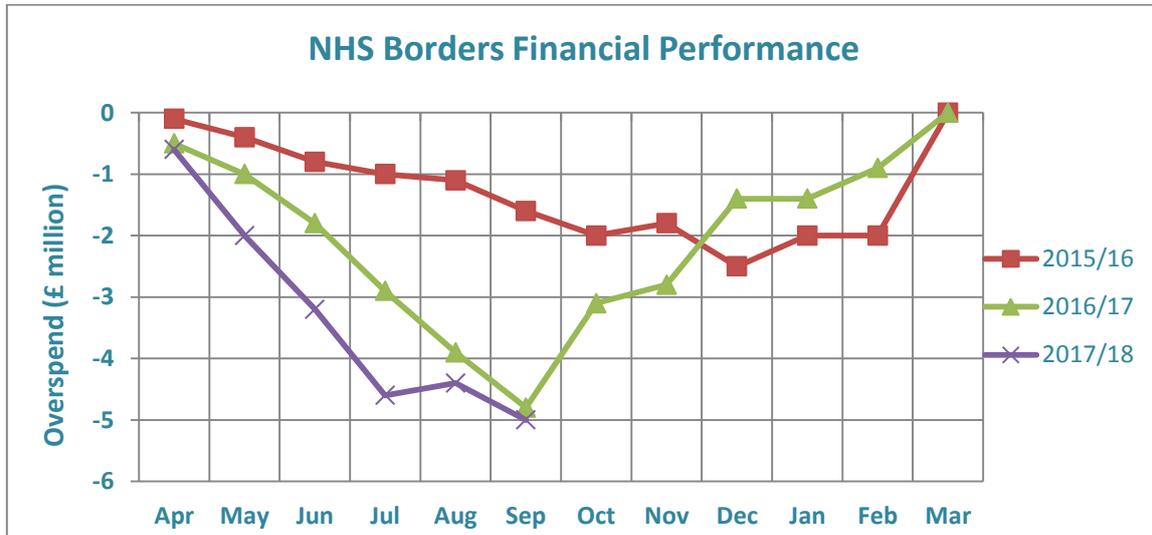
- IJB prescribing costs and drug costs. The prescribing budget is £810,000 overspent as at the end of September 2017. This continues to be an area of risk due to the volatility of drug prices and challenges of achieving efficiencies.
- Borders General Hospital continues to face demand pressures for surge beds to support delayed discharges. This has a knock-on effect on staffing budgets for nursing and medical staff. The Board's pay budget is £1.2 million overspent as at 30 September 2017.
- The External Healthcare Providers budget is reporting a £484,000 overspend, with the main pressures in Unplanned Activity and Extra Contractual Referrals.

39. Looking ahead, the Board will also need to consider the impact of the potential end of the public sector pay cap. It remains unclear which public sector workers will benefit from lifting the cap, when the increases will take effect, and how any such increases will be funded. All public bodies will need to consider the impact of the pay cap ending as they prepare their budgets and consider their financial sustainability.

40. As a comparison with previous financial years, [Exhibit 6](#) below shows the Board's level of revenue overspend on a month to month basis:

³ NHS Borders Financial Performance Return to the Scottish Government, September 2017

Exhibit 6 NHS Borders Financial Performance



Source: Borders NHS Board Finance Reports in 2016/17 & 2017/18

Efficiency savings

41. The financial sustainability of NHS Borders has also been considered in the context of the Board's efficiency saving targets. The projected year-end savings target of £15.6 million for financial year 2017/18 is split £12.9 million recurring and £2.7 million non-recurring. 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.

42. This use of non-recurring savings (17% of total) will impact on the financial sustainability of NHS Borders. The Board acknowledges that meeting these total efficiency savings in 2017/18 is a significant challenge as a large proportion of identified schemes that remain outstanding are still being reported as 'high risk' of delivering savings. The anticipated shortfall on the 2017/18 efficiency programme based on current information (per the September 2017 Financial Performance Return) is £7.1 million.

Actions to address financial position

43. At the Board meeting on 26 October 2017, the Director of Finance presented a Recovery Plan for 2017/18. This paper sets out the proposed actions to attempt to deliver financial balance by 31 March 2018. The Recovery Plan notes that the Board is relying on a number of non-recurring savings to address the financial gap this year and therefore the recurring position of the Board is a significant concern.

44. Actions to address the overspend include:

- the establishment of the Better Borders transformation programme to deliver on plans to support the longer term financial sustainability of the organisation
- plans to transfer a sum of £2 million from the capital to revenue budget to support the revenue overspend
- the use of £2 million of contingency funding to support the financial position
- support being requested from the IJB as a result of the impact of delayed discharges on the health system

- a review of supplies costs to ensure the most cost effective products are utilised by services
- controls being considered to delay the recruitment of non-critical posts by three months.

45. We will continue to closely monitor the Board's financial position and discuss issues with the senior finance team. NHS Borders should continue to communicate these challenges to the Scottish Government Health and Social Care Department. The Better Borders transformational programme will be crucial to ensure the financial sustainability of the Board.

Financial management

46. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether NHS Borders has arrangements in place to ensure systems of internal control are operating effectively
- whether the Board can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Board has assured itself that its financial capacity and skills are appropriate
- whether NHS Borders has established appropriate and effective arrangements for the prevention and detection of fraud and corruption
- how the Board meets the requirements of the National Fraud Initiative.

Governance and transparency

47. 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.

48. The leadership of the Board has seen considerable change during the 2017 calendar year, with a number of changes to Board membership and senior management:

- A new Medical Director has been in post since February 2017.
- A new Director of Nursing & Midwifery was appointed in May 2017.
- A new Chief Officer has recently been appointed to the Borders IJB.
- There is a new Director of Workforce in post, as a result of the previous Director of Workforce & Planning now becoming the Director of Strategic Change & Performance.
- Two new Non-Executive members joined the Board in the summer of 2017, with one further new Board member due to begin their appointment in April 2018.

49. 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.

50. The Board approved a revised Code of Corporate Governance (CoCG) in October 2017. This document sets out the Board's governance arrangements; including areas such as Standing Orders, Standing Financial Instructions and

Scheme of Delegation. The CoCG section on Gifts & Hospitality has been recently refreshed as a result of the internal audit review in 2017/18. With the exception of some minor recommendations which we have raised with management, the CoCG serves as a comprehensive document which adequately sets out the governance roles and responsibilities of the Board. We also recognise the annual review of the CoCG and the opportunity for Non Executive members to review the document as an area of good practice.

51. As noted in [Exhibit 1](#), we have identified some governance policies which are overdue for update; namely the Information Governance strategy and policies. We will review progress being made by the Board in revising policies and procedures in line with the revised CoCG, to assist the Board in achieving its objectives.

52. Our audit will review, conclude and report on:

- whether the Board can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with others, such as the Borders IJB)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

53. Value for money refers to using resources effectively and continually improving services.

54. The Board assesses the service it provides using a series of scorecards and reports designed to measure performance in fulfilling its Local Delivery Plan (LDP) and against local Key Performance Indicators.

55. The Board faces challenges in meeting these targets, particularly in the following areas:

- the achievement of waiting time targets
- reducing delayed discharges
- meeting the Treatment Time Guarantee (TTG) targets
- sickness absence rates.

56. The achievement of performance targets is linked to the ongoing financial pressures the Board is facing. The Board faces difficult decisions of whether a potential deterioration of performance targets can support the financial position. We will review, conclude and report on whether:

- NHS Borders can provide evidence that it is demonstrating value for money in the use of its resources
- the Board can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the Board can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

57. Best Value (BV) duties apply across the public sector. In the health service, BV is a formal duty on all Accountable Officers – NHS Board Chief Executives and the Chief Executive of the NHS in Scotland.

58. Audit Scotland is committed to ensuring the BV auditing across the public sector adds value to existing arrangements, is risk-based and builds on our knowledge of NHS Borders. Specifically we aim to:

- report on the delivery of outcomes for people who use health services
- protect taxpayer’s interest by examining use of resources
- put an increased emphasis on self-assessment by the Board.

59. As part of our audit work, we will assess how NHS Borders assures its stakeholders that Best Value principles are being achieved. We will report on the Board’s BV arrangements in our Annual Audit Report.

Quality control

60. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

61. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

62. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision, for example, by issuing a short, sector-wide survey to provide feedback on the audit services we provide. We welcome feedback at any time and this may be directed to the engagement lead.

Independence and objectivity

63. Auditors appointed by the Auditor General or the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by Audit Scotland’s Ethics Partner.

64. The engagement lead for the NHS Borders external audit is Gillian Woolman, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of NHS Borders.

Audit team

65. The local audit team will be led by the Engagement Manager, Asif A Haseeb, and Senior Auditor, Jonny Steen, who will be responsible for the day to day management of the audit and who will be your primary contacts. Details of the experience and skills of our team are provided in [Exhibit 7](#). The audit team will be supplemented by additional staff during peak times.

Exhibit 7

External audit team

Name	Experience
Gillian Woolman MA (Hons), FCA CPFA <i>Assistant Director (certifying auditor)</i>	Gillian has worked in the public and private sector, internal and external audit, in the UK and overseas. She is the lead Assistant Director for equality and diversity matters at Audit Scotland and holds a mixed portfolio of audits. She is chair of the regional strategic board for the Institute of Chartered Accountants in England and Wales and Vice Chair of LASAAC.
Asif A Haseeb OBE <i>Engagement Manager</i>	Asif joined Audit Scotland in October 2001. Before this he was chief auditor in a Scottish council. Asif has over 23 years of public sector audit experience and substantial financial management and board level experience in the public sector gained through non-executive membership of various boards (currently member of Court at Glasgow Caledonian University). He is also a Justice of the Peace (lay magistrate).
Jonny Steen BAcc (Hons), CA <i>Senior Auditor</i>	Jonny has been with Audit Scotland for 6 years and qualified as a chartered accountant in 2015. He has experience of working on NHS during this time, having previously worked on the audit of NHS Greater Glasgow and Clyde. He has also worked on a number of central government and local government audits.
Ray Buist BSc (Hons), CA <i>Auditor</i>	Ray joined Audit Scotland in 2013 having previously studied at the University of Glasgow. Ray recently qualified as a chartered accountant in the summer of 2017 and has experience in NHS and local government audits.
Sumiya Beg BA (Hons) <i>Professional Trainee</i>	Sumiya is the newest member of the team, joining Audit Scotland in October 2017. She is an Accountancy graduate from Glasgow Caledonian University. Sumiya will begin her studies for the Institute of Chartered Accountants of Scotland qualification in 2018.

Adding Value

66. Through our audit work we aim to add value to NHS Borders. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well NHS Borders has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

67. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. The following [Appendix](#) summarises recent Audit Scotland performance reports which are of direct interest to the Board.

Appendix

Summary of recent NHS performance reports

The table below summarises Audit Scotland's national performance reports published recently which are relevant to the NHS (links are provided to the full reports on our website):

- [NHS workforce planning](#) (published in July 2017)
- [NHS in Scotland 2017](#) (published in October 2017)

NHS workforce planning

Key Messages

- Between 2011/12 and 2016/17, NHS staff costs increased by 11% to £6.5 billion. The *National Health and Social Care Workforce Plan – Part 1* states that the workforce will need to work differently to overcome challenges. Most NHS territorial boards overspent in 2016/17 to reach current staffing levels, with agency staff costs increasing in real terms by 107% in 6 years, from £82.8 million to £171.4 million.
- NHS workforce planning is split between the Scottish Government, NHS boards, and 3 regional workforce groups. There is a risk that responsibilities will further fragment as health and social care integration authorities develop their own workforce arrangements and new specialist medical centres are established. The Scottish Government is setting up a National Workforce Planning Group to improve joint working.
- The NHS in Scotland is undergoing major reform. Dedicated funding to support NHS reform does not clearly identify associated workforce costs. Vacancies for certain consultant and nursing positions remain high. Retirements may also increase vacancy levels in parts of the NHS.
- The Scottish Government expects demand for health and social care to rise but it has not looked at long-term scenarios for future demand and workforce costs. This is a challenge for medical recruitment, where consultants can take more than 10 years to train. NHS Education for Scotland is working to improve workforce projections, with a new approach due in early 2018.
- The Scottish Government intended to publish a single workforce plan covering health and social care in spring 2017. It is now publishing it in three stages, with the first, covering the NHS workforce, published in June 2017. The second, covering the social care workforce, published in autumn 2017; and the third, covering primary care, due to be published by the end of 2017.

Recommendations

NHS boards should:

- produce future plans based on demand as well as supply criteria. This would include:
 - projecting their future workforce against estimated changes in population demography and health factors
 - producing plans which detail the expected workforce required, supported by analysis of workforce supply and demand trends.
- fully cost the workforce changes needed to meet policy directives, such as the shift to community-based care, proposed elective centres, safe staffing levels and more regional working
- improve the accuracy of budgeting for agency spending.

NHS in Scotland 2017

Key Messages

- NHS has a budget of around £13 billion each year, equivalent to 43 per cent of the overall Scottish budget in 2016/17. In 2016/17, the NHS in Scotland employed almost 140,000 whole time equivalent staff, performed 1.5 million hospital procedures and conducted an estimated 17 million GP consultations.
- NHS challenges include increasing costs, growing demand, and the pressures on public finances. Demand for NHS services continues to increase and more people are waiting longer to be seen. Scotland's health is not improving and inequalities remain, while general practice faces significant challenges, including recruiting and retaining GPs and low morale. There are warning signs that maintaining the quality of care is becoming increasingly difficult.
- There is broad consensus on the aim that everyone will be able to live longer, healthier lives at home or in a homely setting. Levels of overall patient satisfaction are high and the public hold the NHS in high regard. There are also early signs that changes in the way services are planned and delivered are beginning to have a positive impact.
- There is no simple solution to addressing the issues facing the NHS. A clear long-term financial framework is a critical part of setting out how change will happen and when. Culture change is an essential part of transforming health and social care services. A different way of involving the public and staff in how they access, use and deliver health and care services is needed to help make difficult decisions. More information about how the NHS is working and the impact changes have on different parts of the system would help.

Recommendations

The Scottish Government, NHS boards and integration authorities, should:

- develop a capital investment strategy to ensure the NHS Scotland estate is appropriate for delivering more regional and community-based services
- continue to develop a comprehensive approach to workforce planning that:
 - reflects forecasts of future staffing and skills requirements to deliver changing models of healthcare provision at regional, local and community level
 - provides a clear breakdown of transitional and future costs to meet projected demand through additional recruitment and training
- continue to work with the public, local communities and staff to develop a shared understanding and agreement on ways to provide and access services differently
- work together to embed the principles of 'realistic medicine' in the way they work, monitor progress in reducing waste, harm and unwarranted variation; and creating a personalised approach to care.

The Scottish Government and NHS boards should:

- work together to develop a consistent way of measuring and reporting savings to ensure that it is clear how boards have planned and made savings, and what type of savings they have made.

NHS Borders

Annual Audit Plan 2017/18

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