

NHS Grampian

2018/19 Annual Audit Report



 AUDIT SCOTLAND

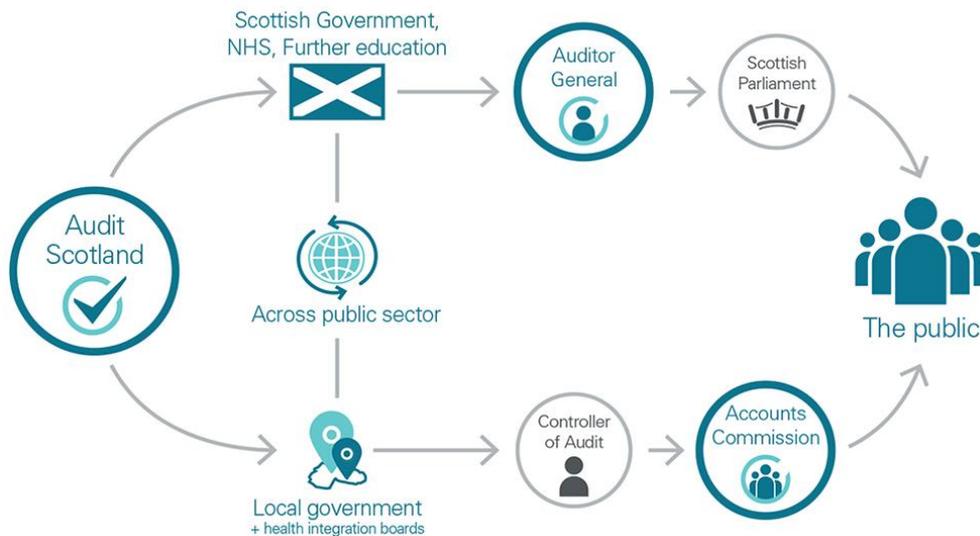
Prepared for the Board of NHS Grampian and the Auditor General for Scotland

25 June 2019

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 2018/19 annual report and accounts	7
Part 2 Financial management	12
Part 3 Financial sustainability	18
Part 4 Governance and transparency	24
Part 5 Value for money	28
Appendix 1 Action plan 2018/19	34
Appendix 2 Significant audit risks identified during planning	36
Appendix 3 Summary of uncorrected misstatements	39

Key messages

2018/19 annual report and accounts

- 1 NHS Grampian's financial statements give a true and fair view and were properly prepared.
- 2 Expenditure and income were in accordance with applicable enactments and guidance.
- 3 The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Financial management

- 4 NHS Grampian has appropriate and effective financial management arrangements in place. The board met all its financial targets for 2018/19.
- 5 Systems of internal control largely operated appropriately and effectively in 2018/19. There is work ongoing to address risks around IT and General Data Protection Regulations.

Financial sustainability

- 6 NHS Grampian has appropriate and effective financial planning arrangements in place to identify and address risks to financial sustainability across the medium term and longer term.
- 7 While the board achieved its savings target in 2018/19, it will be challenging to continue to deliver planned savings and maintain financial balance in the medium term.
- 8 A limited supply of local graduates has led to the implementation of a range of innovative recruitment initiatives, but these will take time to grow. Other solutions developed with partners need to be found to reduce existing dependencies on high cost locum and agency options.

Governance and transparency

- 9 There are appropriate and effective governance arrangements in place that support scrutiny of decisions made by the board.
- 10 Senior leadership arrangements were strengthened in the year to provide additional capacity and support to the chief executive and wider regional responsibilities.
- 11 NHS Grampian demonstrates a commitment to transparency in the way it conducts its business.

Value for money

- 12 NHS Grampian has an adequate performance management framework in place that supports the board.
- 13 While there was improvement in service performance compared to previous year, the board did not meet 12 out of 18 Local Delivery Standards.

Introduction

1. This report summarises the findings from our 2018/19 audit of NHS Grampian.

2. The scope of our audit was set out in our Annual Audit Plan which was presented to the Audit Committee in December 2018. This report comprises the findings from:

- an audit of the board's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit 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 2018/19 have been:

- a review the board's main financial systems
- an audit of the board's 2018/19 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

Adding value through the audit

4. We add value to NHS Grampian through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvement that have been accepted by management
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of financial management, financial sustainability, governance and transparency, and value for money
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports and good practice guides.

5. In so doing, we aim to help NHS Grampian promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. NHS Grampian has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers.

7. The board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

9. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the governance arrangements, financial management, financial sustainability and arrangements for securing value for money. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

10. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. 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 agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £189,500, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual report and accounts



Main judgements

NHS Grampian's financial statements give a true and fair view and were properly prepared.

Expenditure and income were in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

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

Audit opinions on the annual report and accounts

15. The annual report and accounts for the year ended 31 March 2019 were approved by the board on 25 June 2019. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

16. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

17. We received the unaudited annual report and accounts on 13 May 2019, in line with our agreed audit timetable. The board's group accounts included the financial results of the Endowment Fund and the three Integration Joint Boards (IJBs) within the Grampian area.

18. The working papers were of a good standard and finance staff provided good support to the audit team which helped ensure the financial statements audit process ran smoothly.

Risks of material misstatement

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process and reported in our 2018/19 Annual Audit Plan.

20. In respect of the work done to gain assurance over the outcome of these risks, we have commented, where appropriate, throughout this report with a cross reference to [Appendix 2](#) which summarises the work done in respect of each identified risk. With regard to the risks of material misstatement, there were no issues identified impacting on our opinion on the financial statements.

Materiality

21. Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

22. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. On receipt of the unaudited annual report and accounts, we reviewed our planning materiality levels and concluded that they remained appropriate. [Exhibit 2](#) summarises the calculations applied to the audit of the annual report and accounts when we assess the materiality of uncorrected misstatements both individually and collectively.

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 has been set at 1.5% of gross expenditure for the year ended 31 March 2019 based on the unaudited accounts for 2018/19. Previously, outturn forecast figures had been used.	£19.0m
Performance materiality - This acts as a trigger point. If the aggregate of misstatements 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.	£9.5m
Reporting threshold - (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1.5% of planning materiality or £250,000 whichever is lower.	£250,000

Source: NHS Grampian Annual Audit Plan 2018/19 (updated for actual gross expenditure)

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (ISA) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

24. The significant findings are summarised in [Exhibit 3](#). We had no significant findings to report around the qualitative aspects of the annual accounts process. The annual report and accounts provided for audit were of a high standard and met 2018/19 accounting requirements. In addition, we noted that both the performance report and the governance statement made appropriate reference to the board's group responsibilities and properly reported on the performance of group entities.

Exhibit 3

Significant findings from the audit of the annual report and accounts

Issue	Resolution
<p>1. Staff costs – Doctors and Dentists in Training</p> <p>From August 2018, NHS Grampian became one of 4 boards which act as employer boards for Doctors and Dentists in Training (DDiT). In effect this means that the staff remain employees of Grampian throughout their training but will gain experience through secondments to other boards. In terms of accounting and documentation, Grampian, as the employer, includes all DDiT staff on the payroll and has robust processes in place for recording staff placements and recharging the appropriate share of pay costs when on placement to other boards (i.e. outward secondees).</p> <p>Income from outward secondees amounted to £31.6m and was incorrectly included in 'other income' rather than being allocated across the different income classifications required by Note 4 to the accounts in relation to Operating Income.</p>	<p>We are satisfied that appropriate amendments have been made in the revised accounts.</p>
<p>2. Note 3b, Board non-staff operating costs</p> <p>'Other Operating Expenses' within Note 3b were stated as £148.1m. With one exception, this was the most significant amount within the Note, and consequently, further analysis of the amount was recommended.</p>	<p>'Other Operating Expenses' has been reduced by £96.5m and individual material amounts have been separately disclosed within Note 3b in the revised accounts e.g. depreciation, property costs, equipment costs etc</p> <p>We are satisfied that appropriate amendments have been made in the revised accounts.</p>
<p>3. Staff costs</p> <p>– 'paid as if at work' accruals</p> <p>An additional amount has been accrued in 2018/19 compared to previous year representing categories of staff who had not been considered eligible for retrospective payments before and were therefore excluded from the 'paid as if at work' calculations (i.e. categories of staff within facilities/estates, Royal Cornhill Hospital and ITU). While an amount has been accrued, there are ongoing negotiations and uncertainty about the extent of a liability.</p> <p>- inclusion of routine overtime and additional hours in 'paid as if at work' holiday pay calculation</p> <p>In addition, there is a further accrual of £1.2m for payment of overtime and additional hours during periods of annual leave for staff who routinely receive such payments. This relates to the period from 1 April 2018 only. The Scottish Government has not approved retrospective payments for periods prior to 1 April 2018. Should such payments become due in the future, additional funding would be provided by Scottish</p>	<p>There is uncertainty around the extent of the liability as negotiations are ongoing. A contingent liability is already included in the accounts to reflect the uncertain nature of 'paid as if at work' potential claims more generally.</p> <p>On the basis of materiality, we have accepted the amounts accrued as reasonable. Management representation has also been provided.</p> <p>A contingent liability disclosure is included in the accounts to reflect the ongoing uncertainty around 'paid as if at work' potential claims more generally</p>

Issue	Resolution
<p>Government to enable settlement. A national group has been established to enter into a collective agreement with staff side representatives.</p>	
<p>4. Non-current assets – five health centres not subjected to revaluation</p> <p>Non-currents assets included five health centres which have not been subject to revaluation as required. Around 2010, the assets with a gross book value of £5m were recognised as finance leases and included on the balance sheet. At the end of their useful life, the assets will revert to the owner and are likely to have minimal book values.</p>	<p>The movement in value of a similar asset was considered as a reasonableness check of the potential impact of any under/overstatement in value of the health centres. In overall terms the movement was not significant. In total, the health centres are not considered material, and in any event, there is a full review of lease accounting pending as part of the implementation of International Financial Reporting Standard (IFRS)16 on leases.</p>
<p>5. Remuneration Report – shared costs</p> <p>Reported remuneration for two executive directors who also have executive director responsibilities with NHS Tayside was the total remuneration for all their roles. A footnote to the Remuneration Report reflected the dual responsibilities. The board felt this was the most transparent way to reflect these relatively unique arrangements.</p> <p>The NHS Board Manual for the Annual Report and Accounts (the Manual) requires that where senior members of staff disclosed within the Remuneration Report are shared across organisations, the annual remuneration should be apportioned across organisations in accordance with the agreed working pattern.</p>	<p>Changes in the revised Remuneration Report reflect the requirements of the Manual.</p> <p>The matter will be referred to the NHS Technical Accounting Group, who are responsible for updating the Manual, to review the disclosure requirements in such exceptional cases.</p>
<p>6. Remuneration Report – inclusion of other directors</p> <p>The chief executive put acting up arrangements in place to strengthen the senior leadership team and provide additional capacity to support the shared executive director responsibilities with NHS Tayside. As the remuneration report only included executive directors, we requested confirmation that leadership team directors who are not executive directors do not fall within the definition of senior managers (i.e. hold a position of influence) and have correctly been excluded from disclosure in the remuneration report.</p>	<p>The matter was considered by the board at an informal session and confirmation provided that only executive directors be included on the basis that they are board members and part of the decision making process. Leadership team directors who are not executive directors deputise and/or provide support to the chief executive. We are satisfied that this rationale is appropriate. Management representation has also been provided.</p>

Source: Audit Scotland

How we evaluate misstatements

25. There were no material adjustments to the unaudited annual report and accounts arising from our audit. Misstatements identified during the audit which were amended in the Consolidated Statement of Financial Position in the revised accounts increased non-current assets by £3.365m, reduced trade receivables (current assets) by £3.293m and increased trade payables (current liabilities) by £0.072m. The changes largely reflect the correct classification for amounts due in respect of road traffic accident injury costs between non-current assets (amounts receivable after more than one year) and current assets (amounts receivable within one year). The adjustment also included an additional contribution of £0.186m to Moray IJB to meet the board's share of the IJB's increased deficit, and other miscellaneous adjustments of £0.114m.

26. Further adjustments were identified during the audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality. Management do not propose to adjust for the misstatements set out in [Appendix 3](#) as the amounts are not considered material in the context of the accounts. Had the accounts been adjusted, the net impact which would have been to increase net expenditure and decrease Net Assets by £467,000.

Shared systems

27. The NHS in Scotland procures a number of service audits each year for shared systems: NHS National Services Scotland (NSS) procures service audits covering primary care payments and the national IT contract; and NHS Ayrshire & Arran procure a service audit of the National Single Instance eFinancials service.

28. As external audit, we have considered the content of the service auditor assurance reports, and any associated audit reports. There are no significant findings to draw to your attention.

Data analytics

29. In 2018/19 we used data analytics in NHS Grampian as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as *“the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an auditfor the purpose of planning and performing the audit”*. Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

30. Our data analytics approach uses a General Ledger Audit Intelligence Query Tool (GLiQ) which compiles and presents general ledger journal data to auditors to assist our sample selection. GLiQ assisted with the selection by:

- listing all journals greater than performance materiality
- listing journals which have met the threshold for “higher interest” and therefore likely to be of interest to auditors
- randomly sampling journals whose size is higher than a minimum value set by the auditor
- returning sufficient items to meet the sample size determined by the auditor.

31. This approach enabled us to have a better understanding of the data in the financial ledger and its source and has provided us with strong assurance and audit trails for each line in the accounts.

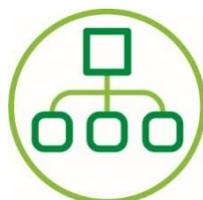
32. We also used GLiQ to provide assurance in our consideration of the risk of management override of controls to change the position disclosed in the financial statements. For example, we identified the volume of transactions raised by different users including senior finance officers, and having reviewed a sample, we confirmed that the reasons for processing were appropriate.

Prior year audit recommendations

33. The action plan agreed with management in connection with our 2017/18 Annual Audit Report included 5 actions for improvement. While there has been progress during the year, the issues are also relevant to this year and have therefore been commented on within this report. Where appropriate, revised actions and timescales are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

NHS Grampian met all its financial targets for 2018/19. The board has appropriate and effective financial management arrangements in place.

Systems of internal control in respect of key financial systems operated appropriately and effectively during the year. There is ongoing action and regular monitoring by the Audit Committee to address risks around IT and General Data Protection Regulations.

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

Financial performance in 2018/19

34. NHS Grampian, as required by statute, must work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). The board has a good track record of meeting its statutory financial limits due to prudent and effective financial management. It has not required brokerage from the Scottish Government to achieve financial balance despite the financial challenges it has experienced. [Exhibit 4](#) confirms that the board operated within all financial limits during 2018/19.

Exhibit 4

Performance against resource limits in 2018/19

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,035.183	1,035.085	0.098
Non-core revenue resource limit	33.606	33.606	0
Total revenue resource limit	1,068.789	1,068.691	0.098
Core capital resource limit	27.348	27.348	0
Non-core capital resource limit	(1.579)	(1.579)	0
Total capital resource limit	25.769	25.769	0
Cash requirement	1,120.68	1,120.68	0

Source: NHS Grampian Annual Report and Accounts 2018/19

Surplus against Revenue Resource Limit (RRL)

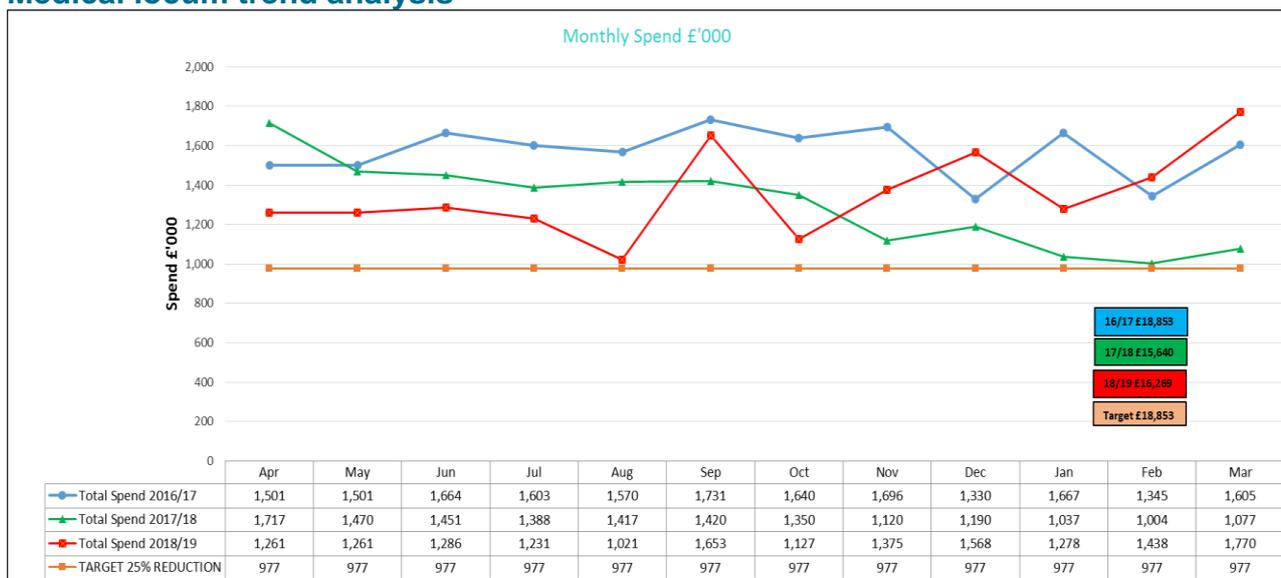
35. The board reported a net retained surplus of £0.098m at 31 March 2019. A balance of £1.022m was brought forward from 2017/18 which meant a net deficit of £0.924m was incurred on in-year activities. A range of budgets continued to experience pressure during the year which resulted in overspends. For 2018/19, these included:

- acute sector of £4.6m - the main overspend arose in Dr Gray's hospital (£3.4m) due to high locum use and higher nursing spend
- in-patient mental health of £1.1m due to the withdrawal of funding from partner councils
- non-clinical services of £1.5m due to a high level of injury benefit claims, lower Vat recoveries, pressures on energy and maintenance costs etc
- services outwith Grampian of £1.1m due to a higher service agreement with NHS Lothian and more invoices from England and Wales for the treatment of Grampian residents
- medical staffing £6.2m - mainly due to the use of agency locums to cover for vacancies.

36. Similar to previous years, operational overspends were alleviated by earmarked funds (£7.7m) i.e. income from Scottish Government which could not be used in year for the purpose it was intended e.g. due to recruitment difficulties, the timing of agreement on new investment or insufficient time available to conduct a procurement process.

37. [Exhibit 5](#) shows that total medical locum spend for 2018/19 was £16.3m, some £4.5m higher than budget and above the previous year's spend by £0.6m which reflects the continuing struggle to recruit to vacant posts.

Exhibit 5 Medical locum trend analysis



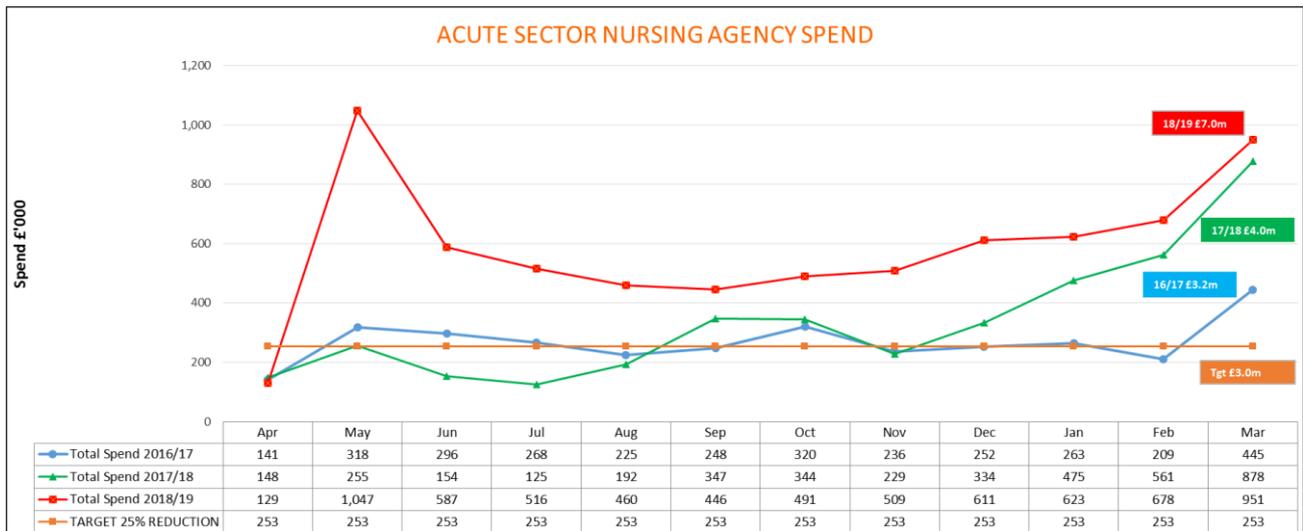
Source: NHS Grampian

38. [Exhibit 6](#) shows the trend in Grampian's agency nursing spend in the Acute Sector. There has been a steady rise since September 2018 due to a conscious decision by the board to engage a high level of agency nursing to support waiting time targets (through theatre capacity), increase bed capacity over the winter

period and ensure safe staffing levels in a number of specialist wards and departments (e.g. ITU).

39. While the board approved to spend a significant amount, it was largely filling gaps caused by a high underlying level of vacancies and consequently, the overspend of £1.3m on the overall nursing budget at 31 March 2019 was actually the best outturn achieved in several years. In 2018/19, £7.0m was incurred which represents an increase of £3.0m over the previous year and an overspend of £4.0m higher than targeted spend.

Exhibit 6 Acute sector agency nursing trend analysis



Source: NHS Grampian

40. The three integration joint boards within Grampian all incurred deficits in 2018/19 that required additional funding either from partners or from reserves to ensure the required break-even position could be delivered.

IJB	£m	Deficit funding required to achieve break-even position
Aberdeen City	£2.7	Funded from IJB reserve which contained unspent integration and change funds provided by Scottish Government
Aberdeenshire	£3.1	Split between partners in line with the integration scheme. NHS Grampian's share was £1.7m
Moray	£1.2	Split between partners in line with the integration scheme. NHS Grampian's share was £0.8m

Capital Resource Limit (CRL)

41. The board received CRL funding of £27.3m in 2018/19 supplemented by donations and proceeds from the disposal of assets giving a total of £29.0m which was fully utilised in the year. Major capital expenditure during the year included: site preparation for the construction of the Baird Family Hospital and Anchor Centre, further investment to reduce backlog maintenance, replacement of essential plant, IT and medical equipment, and the completion of planned works at Cornhill Hospital.

Efficiency savings

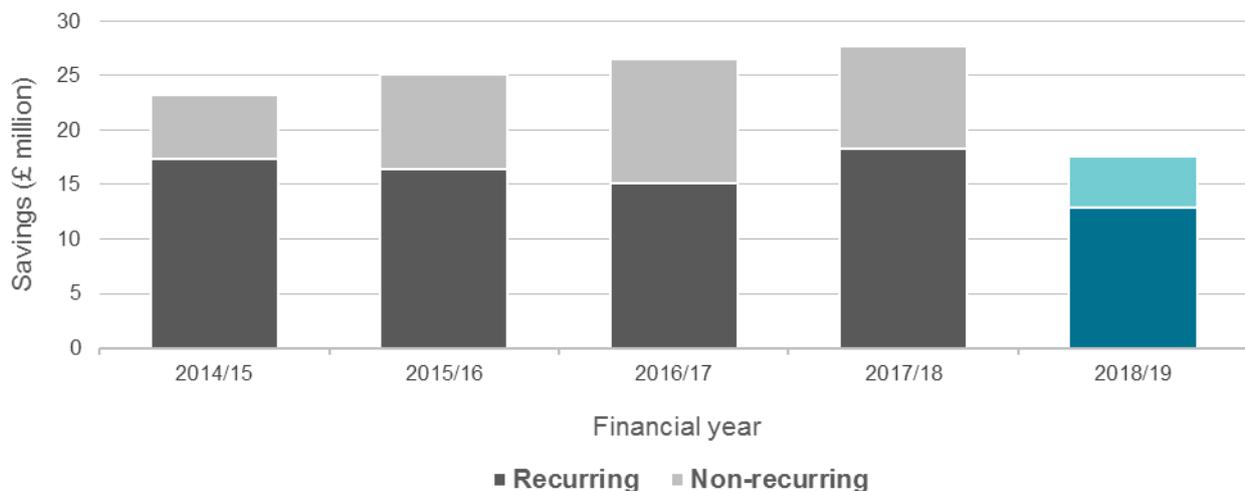
42. NHS Grampian was required to make efficiency savings of £18.3m in 2018/19 of which £17.3m (94.5%) was achieved. This was Grampian's lowest level of required savings in five years. Over the period 2013-18, the board delivered total savings of £124.4m. While this equated to an annual average of £24.9m, its highest level was achieved in 2017/18 when savings of £27.7m were reported.

43. 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 savings in future years.

44. While the board has been reliant on non-recurring savings in recent years, [Exhibit 7](#) shows that the percentage of non-recurring savings has fallen in each of the last three years, from 43% to 27% and the amounts involved have reduced from £11.4m to £4.9m. Grampian is one of only four territorial boards which reduced non-recurring savings in 2017/18 compared with 2016/17. It was also among the four territorial boards with the lowest levels of non-recurring savings.

45. Despite its favourable position relative to other boards, the 'easier' savings opportunities will have been realised by the board and the achievement of future savings targets may involve more difficult decisions.

Exhibit 7 Savings – recurring and non-recurring



Source: Annual Audit Reports for 2014-18 and 2018/19 Finance Performance Return to Scottish Government

Budgetary processes

46. We reviewed NHS Grampian's budgetary processes including budget setting and monitoring arrangements. Comprehensive finance reports are discussed at quarterly Budget Steering Group (BSG) meetings and Performance Governance Committee bi-monthly meetings. These detail over and underspends against budgets with explanations for variances and corrective action being taken. In addition, progress on the achievement of savings, a review of new financial risks likely to require inclusion in financial projections and any other emerging issues are provided. Other information such as staff numbers, backlog maintenance, commitments and new funding allocations is also routinely included.

47. The BSG is attended by senior officers including the three IJB Chief Officers. The finance report presents an overview of performance for the month and year to

date and provides sufficient detail to enable senior officers and board members to scrutinise and monitor results on a regular basis.

48. From our review of committee papers including finance reports, and observations from attending board meetings, we are satisfied that senior management and board members receive regular and robust information on the board's financial position which has enabled effective scrutiny of performance during the year.

Risk management

49. In our previous year's report, we highlighted that the board had agreed a series of actions in 2017 to update its expired risk management policy and processes but had taken little action to implement the relevant recommendations. In response to our action plan, management agreed a series of tasks to be implemented during 2018/19.

50. Led by the Medical Director, work progressed during 2018/19 with new arrangements in place from April 2019. The System Leadership Team (SLT) agreed a Performance, Assurance, Improvement and Risk (PAIR) arrangements framework. The strategic risk register presented to the Performance Governance Committee in May 2019 reflected, for the first time, the eight high level strategic risk categories agreed by the board. These include clinical quality and safety, compliance, workforce, transformation and Brexit.

51. These new arrangements will take time to become embedded but should provide the clarity which was missing around the identification and management of the board's key risks.

Systems of internal control

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

53. Our findings from the review of systems of internal control were included in the interim report presented to the Audit Committee in March 2019. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Grampian's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the annual accounts.

Internal audit

54. We reviewed the board's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. With regard to 2018/19, we concluded that internal audit operated in accordance with Public Sector Internal Auditing Standards which enabled us to place reliance on their work in respect of Key Financial Controls. We also used other internal audit reports to inform our wider dimensions consideration of the board's arrangements.

Standards of conduct for prevention and detection of fraud and error

55. NHS Grampian's counter fraud and irregularity procedures are well-established and documented for example, the board's: Voicing Concern (Whistleblowing) Policy and its Prevention, Detection and Investigation of Suspected Fraud, Theft and Corruption Policy, as well as its Codes of Conduct. We found these documents to be appropriate, current and readily available on the staff intranet.

56. We would however suggest that the board review the effectiveness of its arrangements for reaching staff who do not have regular access to the intranet. Information should be cascaded via team meetings and updates and a number of terminals are available for staff to log on but there are no checks on whether these processes are operating as intended.



Recommendation 1

There is scope to review the cascade arrangements with staff to ensure that the board is being as open and transparent as possible and that staff are able to engage and receive the right information.

57. Other counter fraud arrangements in place include the following:

- a Counter Fraud Progress Report is a standing agenda item for NHS Grampian's Audit Committee providing details of activities such as management briefings, staff training sessions, and partnership working with NHS Counter Fraud Services
- a Register of Interests, Hospitality and Gifts is maintained and regularly updated. We previously highlighted as good practice the extended reporting requirements in respect of consultants. NHS Grampian has contributed to an NHS Scotland Short Life Working Group which has been proactive in agreeing recommendations to be released in national guidance later in 2019
- increased awareness of conflicts and declarations of interests through the development of a local 'toolbox talk' to be rolled out to medical and nursing staff during 2019
- appropriate arrangements are in place to support whistle blowers, and records of whistleblowing cases are maintained. While the content of cases is confidential, the issues involved may identify weaknesses in processes which would merit improvement. There is scope for NHS Grampian to consider lessons learnt and implement improvements where appropriate.

58. Overall, we concluded that the board has effective arrangements in place for the prevention and detection of fraud, error, irregularities, bribery and corruption.

National Fraud Initiative

59. The National Fraud Initiative is a counter-fraud exercise coordinated by Audit Scotland every two years. It uses computerised techniques to compare information about individuals held by different public bodies, on different systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

60. Public bodies submitted data around October 2018 and received matches for investigation from January 2019. With the release of matches now later than in previous years e.g. creditor matches were only received in March 2019, there is limited time for NHS bodies to be involved as resources are directed towards the preparation and audit of the annual accounts. NHS Grampian has therefore only undertaken a limited review at this stage but will direct attention to the matches in the summer after the accounts process has been concluded. Given the competing priorities for resources, we consider this to be an acceptable approach.

Good practice

61. The [Code of Audit Practice 2016](#) encourages auditors to identify good practice which in their opinion is worth sharing more widely. We concluded that the board's finance reports are clear and comprehensive and provide sufficient information for senior staff and board members to scrutinise performance. From 2018/19, a commentary on the use of earmarked funding (i.e. funding received for specific purposes) has also been included which enhanced transparency and effective scrutiny.

Part 3

Financial sustainability



Main judgements

NHS Grampian has appropriate and effective financial planning arrangements in place to identify and address risks to financial sustainability across the medium and longer term.

While the board achieved its savings target in 2018/19, it will be challenging to continue to deliver planned savings and maintain financial balance in the medium term.

A limited supply of local graduates has led to the implementation of a range of innovative recruitment initiatives but these will take time to grow. Other solutions developed with partners need to be found to reduce existing dependencies on high cost locum and agency options.

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

Financial planning

62. NHS Grampian's Annual Operational Plan (AOP) for 2019/20 sets out how the board's financial, workforce and service plans will implement its strategic priorities. The draft plan, including a three-year financial plan, was submitted to the Scottish Government by the deadline of 31 March 2019. It was reviewed in detail at the board seminar in May 2019 and was formally signed off in June 2019.

63. For 2019/20, NHS Grampian will receive an increase of £23.9m in its baseline funding representing a 2.6% uplift. It will also receive an additional allocation of £4.2m bringing the board closer to the National Resource Allocation Committee (NRAC) formula funding target, now 0.8% below parity. From the increase, IJBs will be allocated £8.8m, increases in pay and prices are estimated to be £17.8m and the balance will fund existing commitments.

64. The board's underlying recurring deficit is estimated to be £10.5m due to areas already under pressure such as the acute sector, mental health and out of area agreements. The deficit has been funded by non-recurring resources, mainly slippage on earmarked funding and staffing underspends due to vacancies.

65. NHS Grampian anticipates that it can carry forward £9.1m of unspent earmarked funding from 2018/19 into the new year. Overall, the board aims to have a surplus of £3.0m in 2019/20 on the basis that it delivers savings of £15.3m including £5.1m delegated to the IJBs. The board's targeted areas for savings include medical locums and agency staff, hospital medicines, service efficiencies and non-clinical budgets.

66. Following the latest actuarial valuation of the pension scheme, employer superannuation costs will increase in April 2019 from 14% to 20%. This is likely to equate to at least £20m per annum. As in previous years, NHS Grampian

anticipates that the Scottish Government will provide additional funding to meet the increase.

67. There are also financial risk areas associated with Brexit which have not been reflected in the board's existing financial plans although they are being kept under close review. For example, drug and commodity prices, supply of medical equipment and availability of skilled staff.

68. Overall, the main risk to the board achieving financial balance is its potential inability to achieve savings targets and the inter-relationship between achieving financial balance and delivering operational targets. The increasing level of medical locums and agency nurses required to support and sustain clinical services remains a challenge for the board both from a financial and a clinical perspective. Implementing spending controls in these areas may limit capacity which will ultimately adversely impact on performance against national standards.

Changing landscape for public financial management and medium to long term financial planning

69. A new Scottish budget process has been introduced based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

70. We reviewed the financial planning arrangements at NHS Grampian and assessed the extent to which they identify and address the risks to financial sustainability across the medium and long term. NHS Grampian's three year revenue plan covering 2019-22 reflects the flexibility afforded to boards from this year to move away from delivering a breakeven revenue position in each financial year to achieving breakeven over a three year cycle.

71. The Annual Operational Plan highlighted the key priorities to be delivered in the next three financial years including:

- redesign of service models operating within Dr Gray's Hospital in Elgin and mental health services
- developing plans to achieve national waiting times standards for elective and cancer care linked to investment in diagnostic and treatment facilities
- identifying funding sources to meet the £10m running costs of the new Baird Family Hospital and Anchor Centre due to open in 2021/22
- working collaboratively with the three IJBs to deliver their strategic plans within available resources.

72. NHS Grampian expects to operate within the Revenue Resource Limit and Capital Resource Limit over the three years to 31 March 2022. Underspends of £3.0m are planned in 2019/20 and 2020/21 with an expected overspend of £6.0m in 2021/22 based on the revenue funding requirements to support two major capital projects scheduled to become operational in 2021/22 (i.e. the Baird and Anchor Centre and the Elective Care Programme).

73. The board has identified potential savings requirements of £10.2m to be delivered in 2019/20. Similar levels of savings are required in the subsequent two years, but their potential sources have yet to be determined.



Recommendation 2

Steps should be taken to identify options for inclusion in future years' savings plans.

Asset management

74. NHS Grampian is required to manage its hospitals, community buildings and other assets, (e.g. medical equipment) effectively to ensure patients receive high quality care. The board has a five-year £305m Infrastructure Investment Plan covering 2020-24 including the Baird and Anchor projects (£150.8m), medical and other equipment (£52.2m), elective care centres (£50.6m), primary and community care (£24.8m) and backlog maintenance (£23.2m).

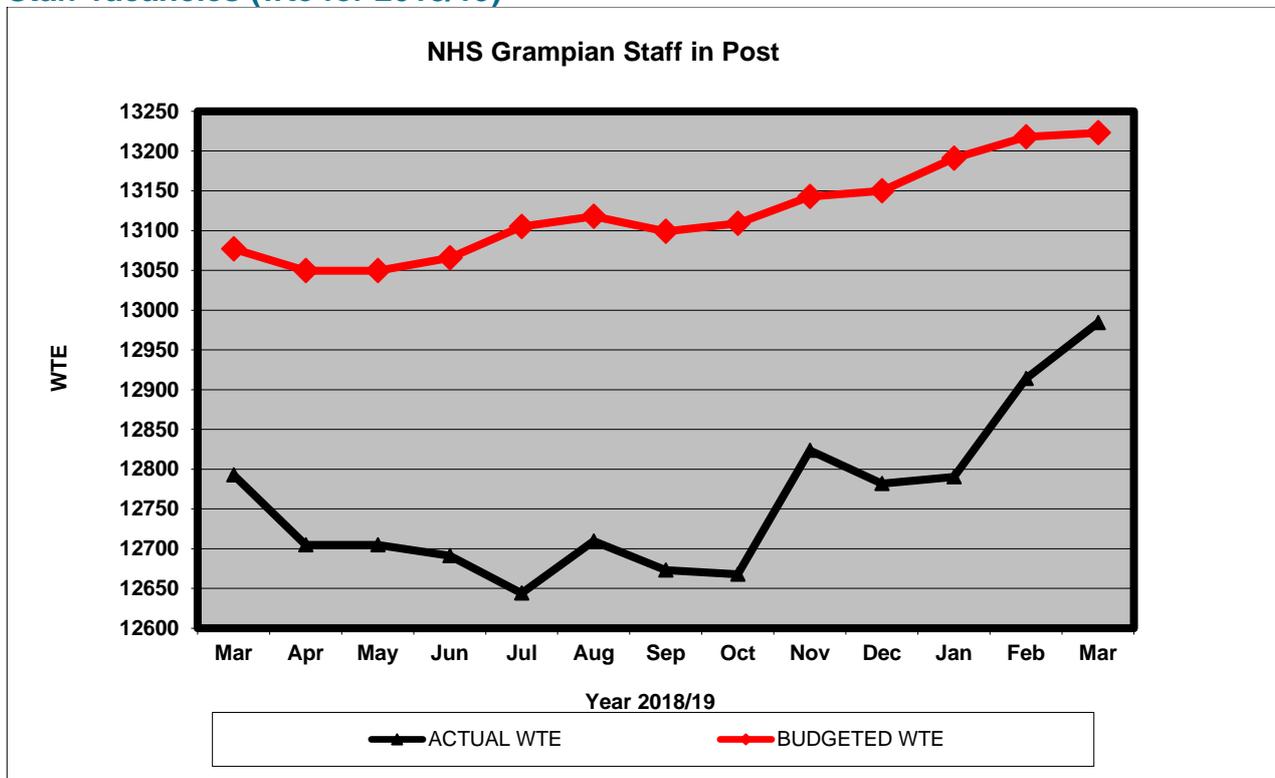
75. Through the Asset Management Group, a cross service group of senior managers, the board has sound arrangements in place for developing and managing capital projects. The group meets monthly to review business cases, project updates, monitor progress and report to senior management and the board.

76. Approved by the board in 2014, a significant project in recent years has been its backlog maintenance programme. The investment required to meet the outstanding backlog maintenance and address compliance with statutory standards across NHS Grampian’s estate was estimated at £190m. In recognition of its importance, an annual update on progress is provided to the Audit Committee each December. Despite £50m investment so far, NHS Grampian has the second highest level of backlog in Scotland.

Workforce planning

77. NHS Grampian’s workforce plan 2018-21 identified a number of workforce challenges including significant medical agency locum and supplementary nurse staff, an ageing workforce, a new General Medical Services contract and the impact of EU withdrawal.

Exhibit 8 Staff vacancies (wte for 2018/19)



Source: NHS Grampian

78. As illustrated in [Exhibit 8](#), NHS Grampian had 12,984 whole time equivalent (wte) staff in post at 31 March 2019 compared with a net funded staff establishment of 13,223 representing a shortfall of 239, comprising of 157 clinical and 82 non-clinical posts.

79. The average age of NHS Grampian staff is 43 years and the percentage of staff within the age range 50 through to 60+ is 37%. Across the workforce, the number of staff aged 50 and over is increasing - Nursing 30%, Healthcare Scientists 33.5%, Administration 23.7% and the overall workforce 29.1%.

80. In common with other boards, NHS Grampian continues to face significant challenges in recruiting staff due to the limited supply of graduates. The board believes the issue is exacerbated by their geographical location far from central belt and relocation costs to the north east. Staff retention is not thought to be a major concern in Grampian with staff turnover at 9.2% in 2017/18 which is comparable with rates over the last five years.

81. With recruitment challenges, pressures to meet elective care targets, and the need to ensure a safe environment for patients and staff, there has been an increase in the use of temporary staff. While they provide flexibility in the short term, temporary staff are expensive as shown by [Exhibit 9](#). Grampian's spend over the last five years has increased from £7.3m in 2014/15 to £26.1m in 2018/19.

82. Reducing temporary staff costs remains a priority for the board. Improvements in job planning and rostering with the implementation and rollout of electronic systems should be beneficial. In addition, there is increased scrutiny around the use of agency and bank staff with more focus on justification for the initial request.

83. The board is also actively pursuing a range of alternative workforce initiatives to increase capacity and development opportunities. For example:

- development of redesigned roles such as Physician Associates (PA), Clinical Development Fellows (CDF) and Advanced Clinical Practitioners (ACP). As at 1 October 2018, there were around 100 staff in these new roles, improving access for patients and providing development opportunities for staff
- following a review of the General Practice intern programme, the North of Scotland region aims to support Physician Associates within GP practices as part of a multidisciplinary team within Primary Care
- the board currently has around 30 modern apprentices
- NHS Grampian has recently been successful in recruiting more than 100 nurses from Western Australia. Early indications are that there is a graduate surplus in Western Australia suggesting that it would be beneficial for Grampian to develop more formal links with the area as a means of attracting its future workforce.

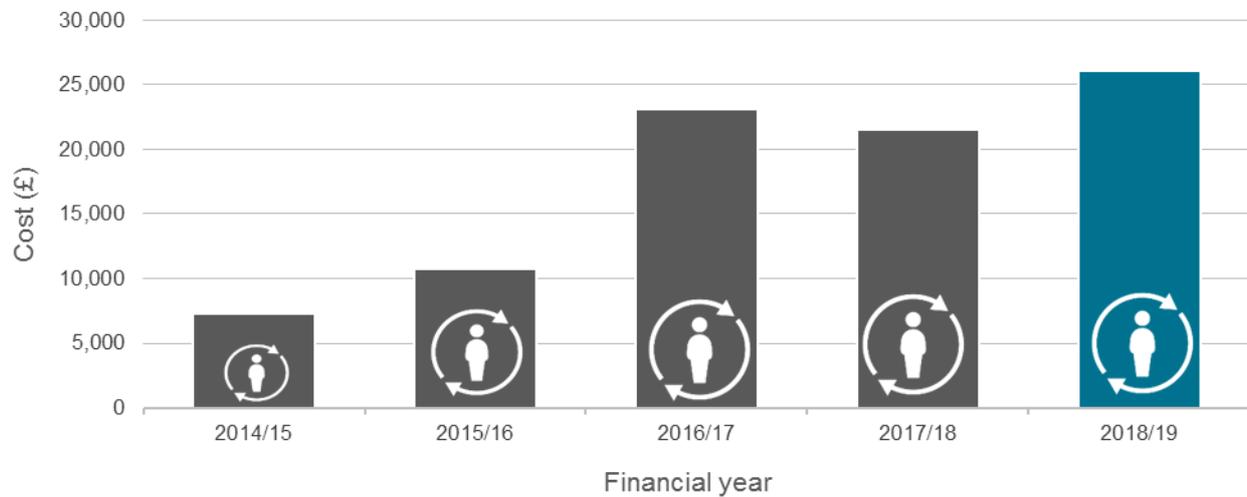
84. NHS Grampian has undertaken age profiling and has set up a working group to identify key priorities and employment needs of an ageing workforce. It also recognises the need to support staff health and wellbeing if longer working lives are to be achieved.

85. NHS Grampian is aware of its workforce challenges and that there is no single major solution which will address staffing problems. Instead, the board is exploring various initiatives to create new and expanded roles; deploying creative and collaborative recruitment approaches; and improving the experience of staff to make NHS Grampian a more attractive place to work.

86. While the board hopes that a combination of these can mitigate the impact the shortage of staff has on finances, patients and staff, it is also important that it continues to work in partnership with the IJBs and the councils in the area to find solutions.

Exhibit 9

Temporary staff costs



Source: NHS Grampian's Annual Report and Accounts



Recommendation 3

It is essential that the board works with partners to find solutions together to build capacity and improve service delivery.

Dependency on key suppliers

87. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts, or disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

88. We analysed NHS Grampian's purchase ledger to identify potential suppliers where there may be a key dependency. We identified two main areas, locum staff providers and pharmaceutical suppliers, but as detailed below, no major risks were identified.

- locum staff providers - locum staff are engaged according to their individual qualifications and experience and could readily re-register with alternative agencies if problems arose with current providers
- pharmaceutical suppliers – while we found that three suppliers provide nearly half of the board's drug purchases, suppliers are primarily identified and engaged at national level. In the event of a local supply issue, NHS Grampian would inform National Procurement so that alternatives could be investigated. In addition, there are local six monthly meetings with Homecare Drugs providers to review performance including any complaints.

EU Withdrawal

89. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

90. The Kings Fund also highlighted accessing treatment and cross border issues as additional areas for health organisations to consider in preparing for withdrawal.

91. All NHS Boards were required to consider EU withdrawal issues in 2018/19 alongside other factors which could potentially impact on business continuity and make use of existing resilience planning arrangements. NHS Grampian submitted a statement of preparedness to the Scottish Government in September 2018.

92. As part of the audit, we considered the board's level of preparedness for EU withdrawal based on criteria collated by Audit Scotland to illustrate what a public body that is 'under prepared', 'partly prepared' or 'well prepared' might look like.

93. While most of the health sector preparations are led nationally, NHS Grampian is also strengthening its local arrangements to increase its resilience. It is fully engaged with national developments and the board/committees are kept abreast on a regular basis as outlined below. EU withdrawal is also considered in the board's workforce plan, risk agenda and contingency arrangements. The revenue budget however has no provision at this stage for any financial impact of Brexit.

- In March 2018, the Audit Committee development session received a briefing on EU withdrawal. Following this event, the Senior Leadership Team established a Brexit co-ordination group of directors comprising finance, facilities and estates, human resources and pharmacy.
- In August 2018, the Staff Governance Committee was briefed on the potential impact of Brexit and in December 2018, the board received a briefing on the status of withdrawal preparations.
- In March 2019, the first of what will become a regular update was provided to the Audit Committee on both national and local preparations including medicines, procurement and workforce.

94. Based on the above evidence, we concluded that NHS Grampian is partly prepared for EU withdrawal. Given the high level of uncertainty which exists nationally, the board is in a reasonable position having given due consideration to a range of matters and implementing a process of regular reporting on emerging risks.

Good practice

95. The [Code of Audit Practice 2016](#) encourages auditors to identify good practice which in their opinion is worth sharing more widely. We consider the steps taken at para 93 in preparation for Brexit to be good practice.

Part 4

Governance and transparency



Main judgements

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

Senior leadership arrangements were strengthened in the year to provide additional capacity and support to the chief executive and wider regional responsibilities.

NHS Grampian is committed to being open and transparent in the way it conducts its business.

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.

Governance arrangements

96. The board operates within a governance framework which delegates specific functions to key sub committees namely: Clinical Governance, Staff Governance, Performance Governance, Audit, Engagement and Participation, Remuneration and Endowment. Each key governance committee is supported by a designated lead Executive Director who has the delegated management accountability for statutory and regulatory matters.

97. The board provides strategic leadership and approves decisions in line with the Schedule of Reserved Decisions and the operational Scheme of Delegation. It meets regularly and at each meeting, committee chairs brief the board on key issues discussed at the most recent meetings. In addition, board executive and non-executive directors are appointed to each of the three IJBs and the three IJB Chief Officers attend each meeting of the health board to provide updates.

98. All executive and non-executive directors have a formal annual appraisal which includes identifying their personal development needs. Executive directors have regular development sessions and board members hold bi-monthly seminars on key topics. For example, board members attended a seminar in January 2019 which focussed on cancer services.

99. From our attendance at board and committee meetings, we have observed that meetings are well attended, members are well prepared, ask appropriate questions and challenge information being presented. Enough time is normally allocated for discussion but if members feel more information is required, discussion may continue at a board seminar.

100. The Scottish Government published the 'Blueprint for Good Governance' in October 2018. This introduced a refreshed approach, drawing on best practice to ensure a consistent, effective and transparent governance approach across NHS Scotland and describes how adoption of the blueprint will help NHS Boards improve their governance system. Boards were required to complete a self-assessment questionnaire to assess how well they currently deliver the functions of governance described in the blueprint model.

101. The self-assessment was carried out in Grampian in March 2019 and identified several areas for improvement which have been formalised in an action plan. These included:

- Setting the direction - reconfirm the vision and values, including clarification of the strategic priorities
- Holding to account-- further develop Board performance reporting linked to the new Performance, Assurance, Improvement and Risk (PAIR) arrangements. Improve board papers to ensure they provide information on the impact of board decisions on service quality and safety. Continue to build relationships between the board and the IJBs
- Assessing risk - improve understanding of risk appetite and accountability for risk and ensure this sits at the right level in the organisation
- Engaging stakeholders - greater external focus. Effective engagement and a clear communication strategy with service users, the general public, staff and other stakeholders
- Influencing culture - consistent position statement on NHS Grampian's key values about culture and behaviours.

Leadership

102. In December 2018, we highlighted a risk around leadership capacity in our Annual Audit Plan due to expected changes following the departure of the chief executive, the conclusion of the chair's term of appointment, and the shared director responsibilities with NHS Tayside. In 2018/19, NHS Grampian experienced the following:

- The previous Chief Executive left in August 2018. The Interim Chief Executive appointed at that time was subsequently appointed as Chief Executive in April 2019.
- The previous Chair of the board concluded his term in office in December 2018 and a new chair was appointed in January 2019. The new chair had previously been a non-executive member of the board and therefore brought continuity and experience to the board.
- The Director of Finance had been supporting other boards in the Northern Region on an ongoing basis but was formerly appointed Director of Finance for NHS Tayside in June 2018 in addition to his NHS Grampian responsibilities.
- The Director of Workforce also acts as Deputy Chief Executive/Director of Workforce for NHS Tayside in addition to her Grampian responsibilities.

103. With the changes in senior roles and responsibilities, the opportunity was taken to strengthen the senior management team through acting up arrangements and additional responsibilities. In addition, NHS Grampian was successful in appointing a new chair and it continues to be successful in recruiting non-executive board members which has not been the experience in other boards.

104. Leadership of the organisation is crucial at this time, as the board continues to face significant financial and operational challenges. Elsewhere in the report, we have commented on the board's efforts to be more innovative in recruitment and so reduce the use and cost of agency staff. While the board's performance has improved on the previous year, it met/exceeded only 4 out of 18 standards. The board continues to meet its financial targets but achieving its planned financial savings each year is becoming more difficult.



Recommendation 4

The board needs to keep its effectiveness under review, to ensure good governance is maintained and that the senior leadership team continues to have sufficient capacity and capability to deliver change.

Openness and transparency

105. There is increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public 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.

106. There is evidence from several sources which demonstrates NHS Grampian's commitment to transparency including:

- public availability of board papers
- more insight into why some business is conducted in private
- the annual accountability review (where members of the public can attend)
- the development of the form and content of annual reports.

107. While performance information is presented to board meetings and more detailed reports are considered by the Performance Governance Committee, committee papers are not publicly available and information on performance is not easily accessible on the website. A dedicated 'performance' page on the board's website is a possibility but we understand that the board has more public engagement via social media. We would therefore suggest that options for sharing performance information are developed with a view to achieving optimum engagement.

108. The 'Blueprint for Good Governance' self-assessment (refer para 101) identified a number of improvements which will improve the board's performance reporting e.g. to link performance reporting with the new PAIR arrangements; to develop effective engagement and a clear communication strategy with service users. We support the board's plans to improve reporting of performance information to the public and encourage this to be in a transparent, timely and user-friendly manner.



Recommendation 1

Options should be developed for public performance reporting including the use of social media to enable stakeholders to better engage, and for them to know how the NHS is performing locally and making a difference to their lives.

Health and social care

109. There are three IJBs within NHS Grampian's catchment area which became fully operational on 1 April 2016. In March 2019, internal audit reported that current arrangements for Health and Social Care Integration governance structures are generally well designed and operating effectively. It was however highlighted that there is no formal communication structure between the IJBs to deal with issues related to hosted services. There are weekly informal discussions but these meetings are not documented. The IJB's have accepted the findings and will prioritise establishing a framework to review the performance of hosted services.

IT Issues

110. As part of our 2016/17 audit, we highlighted the absence of NHS Grampian's local e-Health Strategy. Internal Audit has also completed a series of IT related reviews in the past two years and reported a range of risks.

111. Progress in addressing IT issues has been slow due in part to a lack of capacity in the e-Health department. There is a risk that the board's arrangements for preventing and responding to cyber security threats are not robust.

112. Agreement is in place to establish a Digital Health and Care Strategy Group to review and finalise NHS Grampian's draft Digital Health and Care Strategy. Overall, there has been progress during the year but there is still important work to do. The Audit Committee has oversight of the action plan and continues to receive regular progress reports.

General Data Protection Regulation

113. The General Data Protection Regulations (GDPR) came into force on 25 May 2018 and replaced the UK Data Protection Act (DPA) 1998. GDPR sets out more requirements than the DPA and introduced new and significantly changed data protection concepts. Failure to comply with the GDPR data handling arrangements could result in the board incurring significant fines.

114. Internal audit regularly reports on the board's progress in implementing outstanding high risk audit recommendations. With regard to GDPR, a workplan has been prepared, recruitment is ongoing to provide capacity to support GDPR activities and work is in progress to develop a framework to manage the board's information assets and streamline processes.

115. An interim training package providing an overview of GDPR is available but the board is also adopting the NHS Education for Scotland foundation and intermediate Information Governance training as an interim measure. Information Governance leads across the North of Scotland intend to implement a consistent training package to support regional working.

116. Actions to address the outstanding recommendations from internal audit were initially planned to have been implemented by May 2018. The board is therefore lagging behind with its GDPR programme and while several activities are ongoing, there is a considerable risk that the board's arrangements are not sufficiently robust to handle any GDPR issues.



Recommendation 5

Priority should be given to addressing outstanding actions around IT and GDPR.

Part 5

Value for money



Main judgements

NHS Grampian has an adequate performance management framework in place that supports the board.

While there was improvement in service performance compared to previous year, the board did not meet 12 out of 18 Local Delivery Standards.

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

Best value

117. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value.

118. As part of the board's overall assurance framework, in addition to formal annual assurance statements, core governance committees provide regular assurances to the Performance Governance Committee. Each topic identifies the main issues, actions agreed and the relevant strategic theme at risk. The committee has a key role in coordinating, directing and monitoring risk management activities and consolidating assurances from the governance committees that all significant risks have been adequately managed.

119. The annual internal audit programme, including the implementation of agreed actions, is a key source of assurance for the Board. Progress on high priority recommendations is considered at every meeting of the Audit Committee while the status of medium and low risk recommendations is considered annually, each December, when the committee decides if these recommendations should remain in the report or if no further action is required, the matter can be closed off. This is considered a good practice example of board members exercising their scrutiny function in an open and transparent manner while continuing to hold officers to account, where appropriate.

120. The new 'Performance, Assurance, Improvement and Risk' (PAIR) approach was recently endorsed by the board for implementation in 2019/20. The aim is to better align performance, assurance and improvement, integrate risk into business systems and link these into improvement plans. The System Leadership Team will have oversight and be supported by a sub-group established to monitor each strategic risk area.

121. As already mentioned in para 101, NHS Grampian has also carried out a self-assessment against the 'Blueprint for Good Governance' and agreed an action plan for improvement.

Performance management

122. The detailed review and scrutiny of performance is delegated to the Performance Governance Committee which meets quarterly to consider 52 key indicators (including 18 Local Delivery Plan standards). Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

123. 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.

124. We have concluded that NHS Grampian has an adequate performance management framework in place, helping the board achieve value for money and continually improve how it delivers services.

Overview of service performance

125. The board's performance against its 18 Local Delivery Plan Standards based on latest available data is summarised in [Exhibit 10](#).

Exhibit 10

Overall performance against Local Delivery Plan standards



Sources: NHS Grampian April 2019 Overall Performance Report which went to the 14 May 2019 meeting of the PGC

126. Local Delivery Plan standards are priority performance targets set by the Scottish Government and agreed with NHS boards. While better than previous year, NHS Grampian continues to perform poorly against current standards with 12 out of 18 (67%) categorised as red (i.e. targets outwith acceptable standards being more than 5% below target). In the previous year, 16 out of 19 (84%) were categorised as red. Performance is categorised as green when the targets are met or exceeded. In 2018/19, 4 out of 18 (22%) were categorised as green compared with only 2 out of 19 (11%) in 2017/18.

127. [Exhibit 11](#) provides a detailed commentary of performance in year against key national standards including delayed discharges. While the majority of standards were not met in the year, in the case of 5 out of 7 standards covered in [Exhibit 11](#), there is a stable or improving position compared with the previous year.

Exhibit 11

Performance against key Local Delivery Plan standards including delayed discharges

Standard/Target	Performance (PY=previous year)	Actions being taken by Board
95% Accident and Emergency attendees seen within four hours	98%*  95% (PY 94%)	<p>Multifaceted approach includes: community-based activity to minimise unplanned admissions, safety brief models, multi-agency partnership working and Senior Leadership overview of unscheduled care. NHS Grampian also participates in the national Unscheduled Care Programme and the Ministerial Steering Group, and continues to promote its 'Know Who to Turn To' campaign, to encourage people to access the service provider most appropriate to their needs.</p>
Delayed discharges 0% of patients with delayed discharge waiting more than 2 weeks (excluding code 9)	0%  58% (PY 51%)	<p>Multifaceted approach includes: cross-sector integrated discharge pathways, daily cross-system/sector flow huddles, refreshed re-launch of daily dynamic discharge supported by Service Improvement Managers, ongoing development of the virtual community ward model and acute hospital at home models, and supporting patient flow by increasing Site and Capacity Team operational hours to 24/7. NHS Grampian also supports discharge planning via: additional pharmacy support, introducing discharge screening at weekends, and flow coordination in acute assessment wards. The board also takes measures to support admission avoidance.</p>
Child and Adolescent Mental Health Services (CAMHs) patients seen within 18 weeks	90%  43% (PY 39%)	<p>A whole CAMHS system redesign was implemented in 2018/19 involving:</p> <ul style="list-style-type: none"> - a Choice and Partnership Approach (CAPA) model - CAPA enables the service to flex capacity to meet demand as well as providing a more responsive and equitable service with no internal waits - an expanded multi-disciplinary team, commissioned a new strategic multi-agency meeting, focusing on mental wellbeing, to prevent mental ill health - working with the Mental Health Access Improvement Support Team (MHAIST) to review current arrangements and identify opportunities to improve access and reduce waiting times - an allocation of £1m from the Scottish Government to facilitate the co-location of CAHMS for Aberdeen and Aberdeenshire on a single Centre of Excellence site - an additional £0.5m of Scottish Government funding is expected to increase capacity with the introduction of a new, nurse-led, unscheduled care team.
Patients starting cancer treatment within 62 days (referral to treatment) (Note 1)	95%  80% (PY 80%)	<p>A Medical Lead for Cancer Performance and a Head of Cancer (Pathway and Access) have been appointed to provide leadership, capacity and support improvement.</p> <p>Increased multi-disciplinary team coordinator capacity for patient monitoring and implementation of clinical management plans.</p> <p>Enhanced monitoring of available staffed theatre capacity has been implemented to facilitate additional sessions for patients and an additional urology consultant and colorectal nurse specialist have been appointed.</p>

Standard/Target	Performance (PY=previous year)	Actions being taken by Board
18 weeks referral to treatment time	90% ● 62% (PY 66%)	In 2018/19, capacity to address waiting times was increased via partnership working with the private sector. The board's Annual Operational Plan 2019/20 reaffirms ambitions to provide care close to people's homes, tailor specialist treatment and improve efficiency and productivity. NHS Grampian's Acute Sector Waiting Times Improvement Plan 2019-2022 sets out its goals to achieve key milestones in 2019/20 which will require funding of £12.6m.
Day case or inpatients who waited less than 12 weeks for treatment	100% ● 47% (PY 64%)	In 2018/19, acute sector improvements included the launch of the Day Case Improvement Programme. NHS Grampian is one of four pilot boards working with the Scottish Government's Whole System Patient Flow Programme. In 2019/20, there will be close working with independent sector providers to reduce inpatient / day case backlogs while service teams redesign and realign elective care pathways.
95% Outpatients waiting less than 12 weeks following first referral	100%** ● 65% (PY 63%)	In 2018/19, funding of £9.2m was received to improve waiting time performance of which £0.7m was used to maintain core capacity through recurring commitment to posts. NHS Grampian has agreed with Scottish Government to maintain the improved capacity it has achieved, in addition to progressing developments in key high volume and long wait specialities during 2019/20.

Key: Red = standard missed. PY = previous year (i.e. 2017/18)

* The 4 hour A&E standard is 95%, with boards expected to work towards 98%.

** The 12 week Outpatient waiting time standard is 95%, with boards expected to work towards 100%.

Note 1 Figures from NHS Information Services Division as at Q4 2018/19 apart from patients starting cancer treatment within 62 days which is as at Q3 2018/19.

128. In [Exhibit 12](#), we have compared NHS Grampian's performance in a number of key standards against other territorial boards which the board considers to be its peer group (NHS Greater Glasgow and Clyde, NHS Lanarkshire, NHS Lothian, NHS Tayside). [Exhibit 12](#) also compares the board's peer group performance this year with 2017/18.

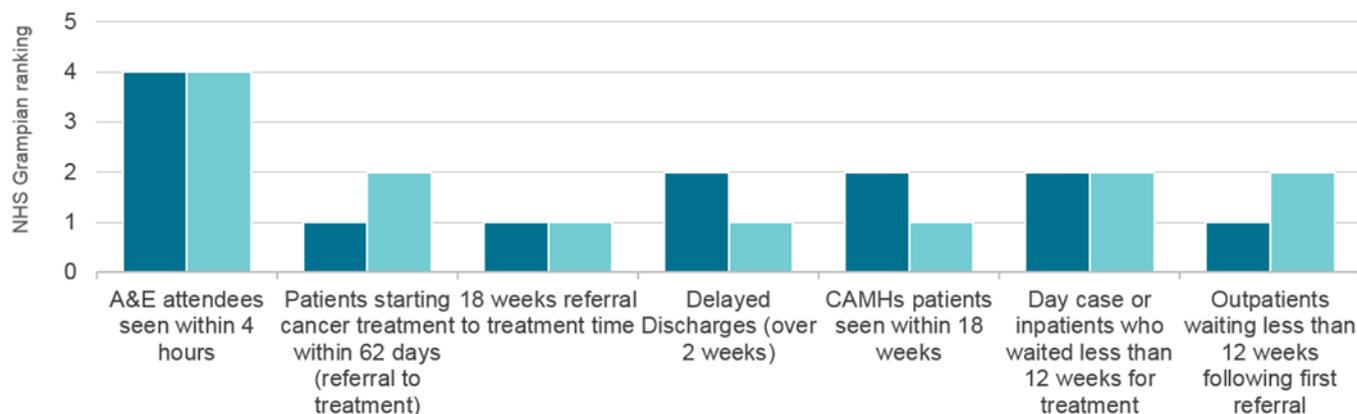
129. We found that, in 2018/19, the board is the poorest performer in its peer group as regards the following standards:

- 18 weeks referral to treatment time (also poorest performer in 2017/18)
- delayed discharges waiting over two weeks (from 2nd poorest in 2017/18 to poorest performer in 2018/19)
- child and adolescent mental health services patients seen within 18 weeks (from 2nd poorest in 2017/18 to poorest performer in 2018/19).

130. However, performance has improved against the peer group in respect of patients starting cancer treatment within 62 days and outpatients waiting less than 12 weeks following first referral. In both cases Grampian has moved from the poorest to second poorest position.

Exhibit 12

Key Local Delivery Plan standards: NHS Grampian peer group ranking (2017/18 vs 2018/19)



Key standards: Peer Group Rankings: 2017/18 vs 2018/19
 ■ 2017/18 ■ 2018/19

Peer group ranking is out of 5, where 5 is the best performing board in the peer group. 2017/18 figures are as at Q4 while 2018/19 figures are as at Q3 except for Delayed Discharges figures which are as at 31 March 2019 for both years.

Source: ISD Scotland, May 2019 (still to be validated)

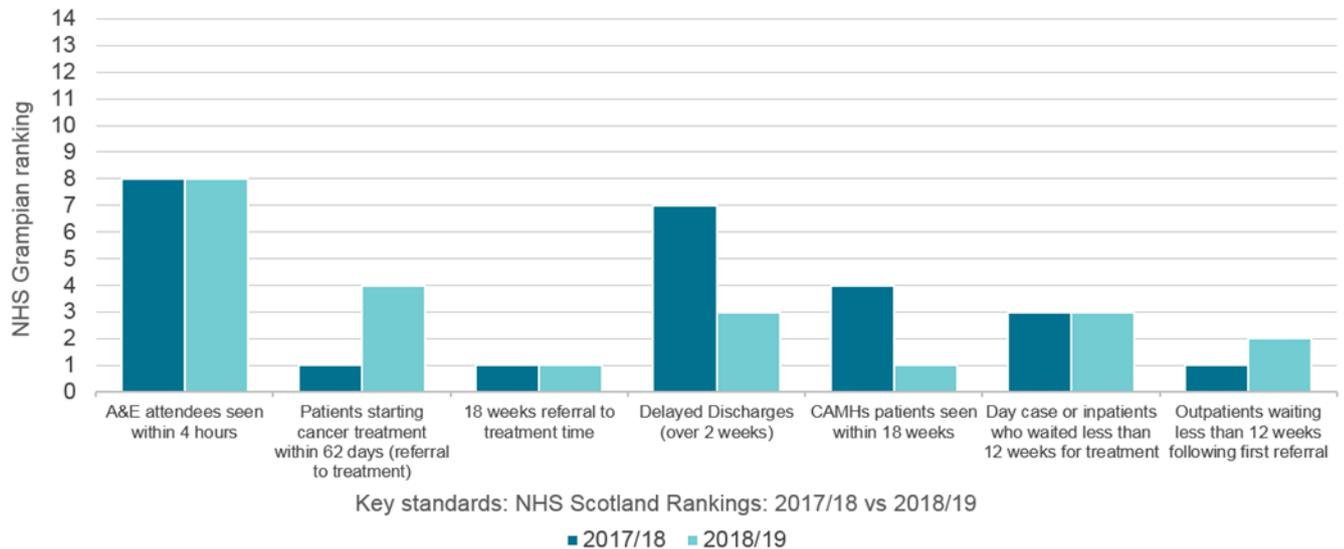
131. [Exhibit 13](#) shows NHS Grampian's ranking against all NHS Scotland boards, again comparing the board's performance this year with the previous year. We found that, in 2018/19, the board is the poorest performer in Scotland as regards the 18 week referral to treatment time standard for planned operations and care. In addition, the board has become the poorest performer for the CAMHs standard. As demonstrated for the peer group, NHS Grampian's service performance against all NHS Scotland boards has improved for patients starting cancer treatment and outpatients waiting less than 12 weeks.

132. The government is planning for a complete recovery of waiting times standards by March 2021, and several incremental improvement milestones have been set. NHS Grampian exceeded expectations by almost 20% at the end of 2018/19; however, the expected achievement by September 2019 looks more challenging. To address recovery of the waiting times standards, NHS Grampian has compiled its Acute Sector Waiting Times Improvement Plan 2019-22. This plan outlines current and ongoing commitments in delivering on core funded capacity, as well as increasing capacity via efficiency improvements, and how this can be achieved.

133. Based on the evidence we have seen, the board's improvement actions appear reasonable and are moving in the right direction towards achieving better performance against standards. The three-year funding flexibility along with the board's strong financial management record and the appointment of a permanent Chief Executive should assist in enabling improvement.

Exhibit 13

Key Local Delivery Plan standards: NHS Grampian ranking against all NHS Scotland territorial boards (2017/18 vs 2018/19)



Note: A rank of 1 indicates poorest performance. NHS Grampian ranking against all boards is out of 14 for all standards, except for CAMH services waiting times and Delayed Discharges. For CAMH services, the three islands boards have been grouped into one. For Delayed Discharges, there is no data for NHS Orkney and NHS Shetland. 2017/18 figures are as at Q4 while 2018/19 figures are as at Q3, except for Delayed Discharges figures, which are as at 31 March 2019 for both years.

Source: ISD Scotland, May 2019

National performance audit reports

134. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland. In 2018/19, the following reports were published which are of direct interest to NHS boards:

- Children and young people's mental health (September 2018) - <https://www.audit-scotland.gov.uk/report/children-and-young-peoples-mental-health>
- NHS in Scotland 2018 (October 2018) - <https://www.audit-scotland.gov.uk/report/nhs-in-scotland-2018>
- Health and Social Care Integration: update on progress (November 2018) - <https://www.audit-scotland.gov.uk/report/health-and-social-care-integration-update-on-progress>

Good practice

135. The *Code of Audit Practice 2016* encourages auditors to identify good practice which in their opinion is worth sharing more widely.

136. In addition to the standard follow up review by Internal Audit of high risk recommendations, once a year the Audit Committee considers the status of each outstanding medium and low risk recommendation and decides if they should remain in the report or if there is sufficient justification to support closing them down. This ensures that improvement actions are promptly addressed as appropriate.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Public performance reporting and openness</p> <p>The board's performance information is not readily accessible for residents and the public.</p> <p>In addition, there is no process in place to confirm that the team cascade arrangements are operating as intended for those staff who do not have regular access to email.</p> <p>Risk</p> <p><i>The board does not meet expectations around openness and transparency.</i></p>	<p>Options should be developed for public performance reporting, including the use of social media, to enable stakeholders to better engage, and for them to know how the NHS is performing locally and making a difference to their lives.</p> <p>There is also scope to review the cascade arrangements with staff (e.g. via the staff survey) to ensure that the board is being as open and transparent as possible and that staff are able to engage and receive the right information.</p>	<p>The Board already are proactively using a number of sources to promote awareness of the Board and its performance. We would anticipate continuing to identify further opportunities during 2019/20.</p> <p>Responsible officer</p> <p>Director of Communications</p> <p>Agreed date</p> <p>31 December 2019</p>
2	<p>Efficiency savings</p> <p>With the requirement to deliver savings an annual event, it is increasingly challenging to identify how savings will be identified and achieved.</p> <p>Risk</p> <p><i>Savings may no longer be possible without the need for difficult decisions on service provision.</i></p>	<p>Steps should be taken to identify options for inclusion in future years' savings plans.</p>	<p>Discussions are being taken forward with the System Leadership Team to develop savings plans for future years, taking account of the known pressures and areas highlighted within the Annual Operational Plan.</p> <p>Responsible officer</p> <p>Director of Finance</p> <p>Agreed date</p> <p>31 December 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Workforce</p> <p>While a range of innovative initiatives have been developed to increase the workforce, these will take time to grow.</p> <p>Risk</p> <p><i>Service redesign will not keep pace with rising demand and increased pressures.</i></p>	<p>It is essential that the board works with partners to find solutions together to build capacity and improve service delivery.</p>	<p>The development of innovative approaches to recruitment to vacant posts and redesign of services based on multi-disciplinary working remains a priority. The System Leadership Team are investing additional capacity with the Workforce Directorate to support a range on actions in this respect.</p> <p>Responsible officer</p> <p>Director of Workforce</p> <p>Agreed date</p> <p>31 March 2020</p>
4	<p>Leadership capacity</p> <p>The board has a challenging agenda, to improve recruitment, reduce locum and agency costs and improve service performance.</p> <p>Risk</p> <p><i>Leadership does not have sufficient time and support to deliver change.</i></p>	<p>The board needs to keep its effectiveness under review, to ensure good governance is maintained and that the senior leadership team continues to have sufficient capacity and capability to deliver change.</p>	<p>The Chief Executive has implemented a cross system development programme designed to support the progression of staff in their careers and establish a pipeline of potential future appointees to senior roles within NHS Grampian. We are confident we can continue to attract senior and experienced individuals to executive and non-executive positions within the Board.</p> <p>Responsible officer</p> <p>Chief Executive</p> <p>Agreed date</p> <p>31 December 2019</p>
5	<p>Ongoing IT and GDPR implementation</p> <p>The board continues to address a range of significant actions under the oversight of the leadership team and the audit committee.</p> <p>Risk</p> <p><i>The board may be exposed to significant unexpected costs.</i></p>	<p>Priority should be given to addressing outstanding actions around IT and GDPR.</p>	<p>The Board is investing in additional capacity to support the implementation of actions in line with the requirements of GDPR. The Board has also commissioned the development of a Digital Strategy during 2019/20.</p> <p>Responsible officer</p> <p>Medical Director (GDPR) and Director of eHealth (IT)</p> <p>Agreed date</p> <p>31 March 2020</p>

Appendix 2

Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls 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>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No issues found, therefore satisfactory.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>In addition to Scottish Government funding, NHS Grampian receives a significant amount of income from other sources. Like other public sector bodies, NHS Grampian is a net expenditure body where the risk of fraud in expenditure is higher.</p> <p>The extent and complexity of income and expenditure means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>Also, with the recently announced new financial flexibility which requires health boards to break-even over a three year period from 2019/20 as opposed to the existing requirement to break-even on an annual basis, there is a further risk over completeness of expenditure and income in 2018/19.</p>	<p>Variance analysis on income streams and expenditure transactions</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk</p> <p>Reliance on Internal Audit review of Key Financial Controls under ISA 610</p> <p>Considered service auditor's report covering the NSI financial ledger, IT contracts and Practitioners Services Division under ISA 402</p> <p>Cut off testing procedures on income and expenditure transactions at year-end</p> <p>Reviewed board's National Fraud Initiative (NFI) matches investigation</p> <p>Monitored frauds and false exemptions reported.</p>	<p>No issues found, therefore satisfactory.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as clinical negligence provisions, accruals and the annual revaluation of existing land and buildings.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Reviewed valuation report in respect of land and buildings and reliance on 'the work of an expert' under ISA 500 in respect of the professional valuer</p> <p>Reviewed accounting treatment of property revaluation and ensure it accords with the requirements of FReM</p> <p>Reviewed the basis and calculation of accruals and provisions, reviewed Central Legal Office (CLO) reports covering clinical negligence claims and review of the CLO as a management expert.</p> <p>Focused substantive testing of key areas.</p>	<p>We concluded that accruals in respect of 'paid as if at work' and holiday pay were reasonable and where appropriate, were comparable with the previous year. Due to an element of uncertainty and reliance on management assumptions, assurances were also sought through the letter of management representation.</p> <p>Otherwise satisfactory.</p>
<p>4 Major capital investments</p> <p>The board has a number of complex major capital transactions.</p> <p>There is a risk that accounting for these complex assets is not in line with FReM.</p>	<p>Review of the financial models and accounting entries to ensure the Hub projects accord with FReM</p> <p>Vouching of significant asset additions to supporting evidence.</p>	<p>No issues found, therefore satisfactory</p>
<p>5 Group accounts and IJB balances</p> <p>Despite early discussions between NHS Grampian and IJB officers, it was late in the 2017/18 audit process before the board could confirm balances with two of the three IJBs.</p> <p>There is a risk that the board's statutory reporting deadline is not met.</p>	<p>Held early discussions with senior Finance officers on the planned timetable for group accounts including expectations from group accountants</p> <p>Discussed progress during the year.</p>	<p>IJB accounts were received later than scheduled but reconciliations were agreed and audit queries resolved before the final deadline.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>6 Performance</p> <p>The board struggles to improve its performance against a range of significant targets.</p> <p>The board has significant exposure to reputation risks by not meeting patients' needs and failing to comply with the statutory Treatment Time Guarantee.</p>	<p>Reviewed performance reports and board minutes and considered actions by board/management to address poor performance</p> <p>Reviewed clinical negligence claims for any trends.</p> <p>Commented in our Annual Audit Report on our findings and conclusions.</p>	<p>Refer pars 122 to 133.</p> <p>Appendix 1, Recommendation 1.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>7 Leadership capacity</p> <p>The leadership of NHS Grampian is experiencing a period of significant change since the departure of its chief executive on 31 August 2018, the conclusion of the current chair's term of appointment in December 2018 and the ongoing Regional involvement of directors, in particular, the Directors of Finance and Workforce who also have director responsibilities in NHS Tayside.</p> <p>There is a capacity risk at NHS Grampian which may adversely impact on the board's achievement of national objectives and local service delivery and performance expectations.</p>	<p>Observed board meetings and reviewed board and committee minutes and agenda papers to assess the level of engagement and direction provided by senior managers</p> <p>Discussed with non-executive directors their assessment of the impact of changes to the senior management team role.</p> <p>Discussed with senior officers, how the board make use of the opportunities and manage the risks and challenges presented by regional working</p> <p>As part of the annual accounts process, relevant responsibilities will need to be correctly captured in the board's Remuneration and Staff Report.</p>	<p>Refer paras 102 to 104.</p> <p>Appendix 1, Recommendation 4.</p>
<p>8 Workforce issues</p> <p>The board continues to experience a range of workforce challenges e.g. significant medical agency locums and supplementary nurse staff spend, an ageing workforce with a high percentage of the overall workforce aged 55 or over etc</p> <p>There is a risk that the board's workforce is not sustainable and may result in failure to deliver safe, timely and effective healthcare services.</p>	<p>Reviewed workforce updates to committee/board and the actions being taken to address workforce issues especially in reducing use of medical locums and agency and bank nurses</p> <p>Reviewed the initiatives being taken by the board to improve recruitment and re-design service delivery models to address staffing problems.</p>	<p>Refer paras 77 to 86.</p> <p>Appendix 1, Recommendation 3.</p>
<p>9 Financial position</p> <p>While 2018/19 financial reports forecast a break-even position at 31 March 2019, this will require careful management of a number of financial challenges and delivery of £18.3m planned savings.</p> <p>The board needs to continue to develop long-term financial plans which consider opportunities for regional working, the Scottish Government's medium term Financial Strategy, and Social Care Financial Framework.</p>	<p>Reviewed finance and savings tracker reports and minutes of meetings. Monitored progress with delivery of efficiency savings and financial targets.</p> <p>Regular discussions with senior officers to understand how the board is managing cost pressures.</p> <p>Reviewed performance updates to Performance Governance Committee and the board.</p>	<p>Refer paras 62 to 73.</p> <p>Appendix 1, Recommendation 2.</p>

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £250,000.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Net expenditure	552			
	Provisions				552
	Understatement in board's share of CNORIS liability				
2	Net expenditure (other healthcare)	4,790			
	Provisions				4,790
	Increase in provisions – additional claims				
3	Trade/other receivables			4,875	
	Net expenditure (operating income)		4,875		
	Increase in CNORIS debtors as a result of additional claims				
Net impact			467		(467)

Notes: As the CNORIS liability is funded by Annually Managed Expenditure (AME) by the Scottish Government, the following adjustments would not have impacted on the underspend for the year:

1. Entry 1 relates to understatement of CNORIS liability.
2. Entry 2 relates to additional clinical negligence claims identified from a review of Central Legal Office reports for April/May 2019
3. Entry 3 relates to the additional CNORIS debtor due to the additional claims identified in entry 2.

NHS Grampian

2018/19 Annual Audit Report

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