

NHS Tayside

2018/19 Annual Audit Report



 AUDIT SCOTLAND

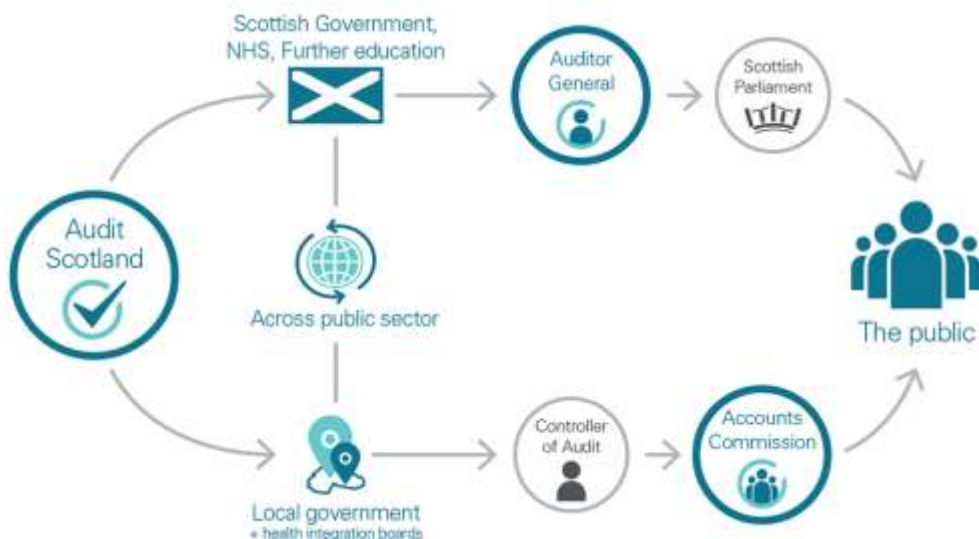
Prepared for the Board of NHS Tayside and the Auditor General for Scotland

27 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.

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Key messages

General

- 1** In December 2018, the Auditor General provided a fourth consecutive report to the Parliament on NHS Tayside. This reported continuing concerns with the board's unsustainable financial position, performance and governance issues. This report provides an updated position on the issues raised in this report, relating to the 2018/19 financial year.
- 2** In April 2018, as result of concerns over NHS Tayside's financial management and sustainability of its services, the Cabinet Secretary for Health and Sport put NHS Tayside on the highest level of government intervention, level 5 escalation. In February 2019, as a result of improvements made, this was reduced to level 4 escalation. Level 4 escalation is where there are significant risks to delivery, quality, financial performance or safety, and senior level external support is required.

2018/19 annual report and accounts

- 3** The financial statements give a true and fair view of the board's financial transactions and financial position and have been properly prepared in accordance with accounting regulations.
- 4** The board's income is fairly stated and agrees to the Scottish Government funding allocation letters. Expenditure and income are reported in accordance with applicable enactments and guidance.
- 5** The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and properly prepared in accordance with the accounts direction.
- 6** It is reasonable for the accounts to be prepared on a going concern basis due to the board's commitment to break even by 2021/22 and the Scottish Government's ongoing funding commitment to the board.

Financial management

- 7** Financial management in NHS Tayside improved in 2018/19. The board achieved its financial plan and efficiency savings targets were exceeded. Its financial planning was more realistic than we have seen in recent years. An underspend of £0.1 million against the Revenue Resource Limit (RRL) is reported.
- 8** The board still has significant financial challenges. In order to meet its 2018/19 financial targets, the board received brokerage of £17.6 million. Although this is a significant amount, the brokerage required was £4.7 million less than planned. Brokerage outstanding at 31 March 2019 totals £63.5 million. We understand that territorial boards will have all outstanding brokerage written-off at 31 March 2019.
- 9** Financial reporting has improved in 2018/19. Senior management and committee members received regular, timely and up to date financial information on the board's financial position.

- 10** NHS Tayside has adequate systems of internal control in place over key financial systems during the year and these were appropriate and operated effectively.

Financial sustainability

- 11** Transformation of the board's services is key to it achieving financial sustainability. In May 2019 the Board approved '*Transforming Tayside 2019-22*', which sets out a high level overview of its three year programme for change. This is a key step in the board moving forward with transformation. However, it has taken longer than anticipated to approve the strategy and the detailed transformation programme required to deliver the level of savings required is still to be developed. Targeted savings from the transformation are not significant until 2020/21.
- 12** In 2018 the Cabinet Secretary for Health and Sport announced a new approach to financial planning and target setting for Scottish NHS boards, with a requirement to break even over three years.
- 13** The board's high-level three-year financial plan shows the board will achieve break even by 2021/22. However, the plan anticipates forecast deficits over the period. There is currently a lack of clarity on how these deficits will be funded. Scottish Government guidance states that boards that cannot deliver a breakeven position over three years will remain in escalation. This is a risk for NHS Tayside.
- 14** In the medium to longer term there is considerable uncertainty on the board's financial position including the impact of EU withdrawal. As the board's medium-term planning processes develop, scenario planning or modelling of the assumptions used should be introduced.

Governance and transparency

- 15** In 2018 a new Chair and interim Chief Executive were appointed to make urgent improvements in the board. A permanent Chief Executive was appointed January 2019. A new Joint Director of Finance also took up post in 2018, covering both NHS Tayside and NHS Grampian.
- 16** There has been significant change in Board membership since 1 April 2018. Two new Non-Executive Director posts remain vacant. Two recent recruitment exercises to appoint a new Chair have been unsuccessful at identifying a replacement for the current Chair.
- 17** The Chief Executive has introduced a revised executive leadership structure but there are a number of vacancies in key leadership posts. Appointments to the new structure will be critical in bringing in the capacity to deliver stable, effective leadership that can deliver the transformation required. The appointment of a full time Director of Finance for NHS Tayside will be key to the leadership team going forward.
- 18** Last year the Chief Executive reported in the Governance Statement that corporate governance was not operating effectively throughout the financial year ended 31 March 2018. During 2018/19 reviews have been completed on the board's corporate governance arrangements, and a number of improvements have been made. We have concluded that in 2018/19 NHS Tayside had adequate governance arrangements in place. Further improvements are planned during 2019/20.
- 19** Understanding risks is key for the board when making decisions about how it uses its resources and delivers services in the future. Development and implementation of the board's risk management processes has been slow over time. Following improvements in 2018/19,

Internal Audit concluded on the effectiveness of risk management, controls and governance as 'adequate'. Review of the risk management system is ongoing to align it with the board's strategic planning and performance management arrangements.

- 20** Internal audit generally operates in accordance with Public Sector Internal Audit Standards (PSIAS). There was slippage in 2018/19 against the internal audit plan but priority was given to audit work which provided assurances for the Corporate Governance Statement.

Value for money

- 21** NHS Tayside's performance against service standards is mixed but for the majority of standards the board failed to meet the national targets. The board continues to seek ways to balance the achievement of its financial targets with other national performance targets.
- 22** The performance management framework is being developed to provide links to national improvement plans, financial plans and *Transforming Tayside* and to improve the tracking of performance improvement actions.

Introduction

1. This report summarises the findings from our 2018/19 audit of Tayside Health Board, commonly known as NHS Tayside (NHST).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 24 January 2019 meeting of the Audit Committee. 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 of 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
- a local report on payments relating to the departure of the former chief executive.

Adding value through the audit

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- Providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

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

6. NHS Tayside has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The board's annual report and accounts includes the following:

- Performance report
- Accountability report (which includes the directors' report, governance statement and remuneration and staff report)
- Financial statements and supporting notes.

7. The board is also responsible for compliance with legislation putting arrangements in place 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 and [the Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.

9. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. 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](#).

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 their 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. It also includes outstanding actions from last year and progress against these.

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 £208,104, 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

The financial statements give a true and fair view of the board's financial transactions and financial position and have been properly prepared in accordance with accounting regulations.

The board's income is fairly stated and agrees to the Scottish Government funding allocation letters. Expenditure and income are reported in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and properly prepared in accordance with the accounts direction.

It is reasonable for the accounts to be prepared on a going concern basis due to the board's commitment to break even by 2021/22 and the Scottish Government's ongoing funding commitment to the board.

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 27 June 2019. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- 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 accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

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

Submission of annual report and accounts for audit

16. We received an unaudited accounts template on 6 May 2019, in line with our agreed audit timetable and this allowed us to start the audit of the financial statements for 2018/19.

17. As agreed with management, the template was incomplete at this stage, mainly due to the unavailability of the Endowment Fund and Integration Joint Board (IJB) within its area financial results for consolidation and some other minor matters.

18. We also agreed that management could provide us with the 'annual report' part of the annual report and accounts on 15 May 2019, consisting of the Performance Report and Accountability Report (see paragraph 6). We received these statements on 15 May 2019 (in line with our agreement).

19. Although the Annual Report and Accounts were received in stages, by the agreed dates, initially there were some gaps in the information provided which impacted on the audit process. Further improvements in the reporting and auditing timeline will be discussed with officers in 2019/20.

20. Working papers provided were generally of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

21. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the financial statements and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

22. In summary, we have concluded on the outcome of our planned audit work and we have raised a number of issues relating to NHS Tayside and these are included in the action plan at [appendix 1](#).

Materiality

23. 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.

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

25. On receipt of the annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

| Materiality level | Amount |
|-------------------------|---------------|
| Overall materiality | £5.34 million |
| Performance materiality | £2.67 million |
| Reporting threshold | £53 thousand |

Source: NHS Tayside Annual Audit Plan 2018/19


Significant findings from the audit in accordance with ISA 260

26. International Standard on Auditing (UK) 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.

27. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 3

Significant findings from the audit of the financial statements

| Finding | Resolution |
|--|---|
| <p>1. Deferred Income – Research and Development Contracts</p> <p>The board's 2018/19 trade payables balance includes amounts for research and development deferred income, which is defined in the health board accounts manual as an obligation where a future service is required to be performed before the income can be recognised.</p> <p>Included within the board's trade payables balance are amounts totalling £1.157 million which relates to income from research and development contracts. In our view, this amount does not strictly meet the definition of deferred income and, as a result, should be disclosed in the board's 2018/19 accounts as operating income.</p> | <p>The net impact of adjusting for the misstatement in the 2018/19 accounts would be to remove £1.157 million of research and development income from deferred income which would increase the board's 2018/19 reported operating income and increase the underspend against RRL by £1.157 million. We have included this as an unadjusted error in the accounts at paragraph 30.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p> |
| <p>2. Period Payment Orders (PPOs)</p> <p>The board has calculated the structured settlement element (Periodic Payment Orders (PPOs) of the provision for future medical negligence payments on a straight-line cash basis that does not include any projected increase for inflation or discount rate. The Government Financial Reporting Manual (FRM) requires bodies to use inflation and discount rates set by Treasury in public expenditure system. As a result, the provision reported at note 13 is understated by £3.653 million. This has no impact on the net expenditure and savings reported for 2018/19 since any increase in this provision would be fully reimbursed by the Clinical Negligence and Other Risks Scheme (CNORIS) operated by NHS Scotland. The reimbursement figure in the notes is also understated by £3.653 million.</p> <p>Several health boards in Scotland have applied the same approach as NHS Tayside when calculating their provision for PPOs. As a result, the overall CNORIS scheme liability for Scotland is understated by £6.321 million. This has resulted in a redistribution of the overall liability to NHS boards in Scotland which, in turn, has resulted in an increase of £0.537 million to the board's share of the CNORIS liability of NHS Scotland. As any movements in the board's share of CNORIS funding is covered by AME funding from the Scottish Government, this does not have any impact on the net expenditure and savings reported for the year.</p> | <p>The board has adjusted for the £3.653 million mis-statement in the 2018/19 accounts. The board has not adjusted for the mis-statement in its share of the CNORIS liability which would reduce the underspend by £0.537 million. We have included this as an unadjusted error in the accounts at paragraph 30.</p> |
| <p>3. Service concession assets</p> <p>The board are required to disclose the future year payments due to be made in relation to service concession assets and the nature of these payments. In Note 18b (Commitments under PFI contracts) the board has disclosed five service concession assets and calculated the future payments inflating the payments annually. However, three of the</p> | <p>These mis-statements impact on note disclosure only and do not impact on the board's net expenditure and net assets. The board has restated the note.</p> |

| Finding | Resolution |
|--|--|
| <p>service concession asset agreements only require part of the payment to be increased by inflation with the remainder of the payment fixed. As a result, the disclosures in Note 18b are misstated as follows:</p> <ul style="list-style-type: none"> the gross minimum payments and interest element are overstated by £48.549 million the service elements due in future periods is overstated by £6.474 million. | |
| <p>4. Expenditure and income in relation to IJBs</p> <p>A compensating error was made in posting of IJB income and expenditure within the operating expenditure and operating income resulting in both the contributions to IJBs and the income for services commissioned by IJBs being overstated by £7.15 million.</p> | <p>The board has adjusted for the £7.15 million mis-statement in the 2018/19 accounts. This error had no impact on the net expenditure in the Statement of Consolidated Net Expenditure or the board's net assets.</p> |
| <p>5. Inter group transaction</p> <p>The board made a payment of £3.6 million to the Tayside Health Fund (endowment fund) in 2018/19. This is an inter-group transaction which should have been eliminated on consolidation. The consolidation adjustment was not processed by the board.</p> | <p>The board has corrected the accounts to eliminate the inter-group transaction. This has no impact on net expenditure or net assets.</p> |
| <p>6. Health and social care integration</p> <p>The three IJBs within the Tayside area have been reflected in the board's accounts.</p> <p>The IJBs have been consolidated into the group accounts as joint ventures. The board's share of the IJB net assets are shown as investments in joint ventures totalling £2.9 million.</p> <p>£462.0 million has been included in the board's clinical services expenditure, which represents the board's payments to the IJBs to provide services on its behalf. This is offset by £454.2 million of income from the IJBs for the commissioning of services by the IJBs.</p> <p>The IJB figures are based on unaudited information received from each IJB. We do not anticipate any material changes to the draft figures used in consolidation.</p> | <p>For information.</p> |
| <p>7. Endowment fund</p> <p>The endowment fund figures included in the group accounts are based on the unaudited accounts. We have received written assurances from the auditor of the endowment fund that no material changes are anticipated to the draft figures used in consolidation.</p> <p>Audited accounts will be presented to the endowment fund trustees and NHS Tayside's Audit and Risk Committee on 20 June 2019. The implications of any changes to the draft figures will be considered prior to signing the audit opinion.</p> | <p>For information.</p> |
| <p>8. Large hospital services and set aside budgets</p> <p>In 2016/17 and 2017/18, health boards and IJBs were required, as a minimum, to agree a figure for the sum set aside in respect of large hospital services to be included in their respective annual accounts. Where the required arrangements were not fully in place, IJBs were to use the</p> | <p>For information.</p> |

| Finding | Resolution |
|--|-------------------------|
| <p>budget made available as agreed by their health board partners.</p> <p>In March 2019, the Scottish Government wrote to NHSS Chief Executives advising of its expectations for the 2018/19 annual accounts that Health Boards and IJBs agree a figure for the sum set aside to be included in their respective annual accounts. In the absence of bespoke local arrangements, data from NSS ISD may be used to enable the preparation of accounting estimates for this sum.</p> <p>In 2018/19 the board used the same methodology for calculation of the set-aside sum as the previous year, a methodology that was in line with Scottish Government guidance. This resulted in a set aside sum of £44.5 million in 2018/19, which is included in the board's clinical services expenditure, which represents the board's total payments to the IJBs to provide services on their behalf, of £462.0 million.</p> | |
| <p>9. Going concern</p> <p>The accounts have been prepared on a going concern basis i.e. the board expects to continue operations for the foreseeable future, at least 12 months from the accounts signing date.</p> <p>As reported throughout this report the board's financial position is challenging and has been supported in recent years with significant brokerage. Despite NHS Tayside's continuing financial challenges, we have accepted that it is reasonable for the accounts to be prepared on a going concern basis due to the board's planned achievement of financial break-even by 2021/22 and the Scottish Government's ongoing funding commitment to the board.</p> | <p>For information.</p> |

Source: Audit Scotland

Qualitative aspects of the audit

28. We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.

How we evaluate misstatements

29. There were a number of adjustments to the unaudited financial statements arising from our audit which were above our reporting threshold. The net impact of these adjustments was to increase net expenditure and decrease net assets by £0.047 million.

30. Two other mis-statements, as detailed in Exhibit 3, were identified which were not processed through the financial statements and these have been classified as unadjusted errors. If corrected, this would decrease net expenditure by £0.620 million (and increase the underspend against RRL) and increase the net assets in the consolidated statement of financial position by the same amount.

31. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements.

Follow up of prior year recommendations

32. In total, 8 agreed improvement actions were included in our 2017/18. Progress with these actions are as follows:

- 2 have been fully implemented, relating to the receipt of the annual report and accounts and assurances over the repayment of endowment fund monies
- 4 are ongoing actions which we recognise would not be fully completed in 2018/19, relating to longer term financial sustainability (including efficiency savings), approval of the formal clinical strategy and transformation programme, financial capacity and EU withdrawal planning and these issues feature once again in this report
- 2 are not actioned or have only partly been actioned relating to risk management relating to Integrated Joint Board activities (see paragraph 157) and public performance reporting (see paragraph 225) which are also reflected in this report. Overall, progress in these areas has been slow.

33. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [appendix 1](#).

Part 2

Financial management



Main judgements

Financial management improved in 2018/19. The board achieved its financial plan and efficiency savings targets were exceeded. An underspend of £0.1 million against the Revenue Resource Limit (RRL) is reported.

In order to meet its 2018/19 financial targets, the board received brokerage of £17.6 million. Although this is a significant amount, the brokerage required was £4.7 million less than planned.

Financial reporting has improved in 2018/19. Senior management and committee members received regular, timely and up to date financial information on the board's financial position.

NHS Tayside has adequate systems of internal control in place over key financial systems during the year and these were appropriate and operated effectively.

Financial performance in 2018/19

34. Financial management improved in 2018/19. The board achieved its financial plan and efficiency savings targets were exceeded. Its financial planning was more realistic than we have seen in recent years. An underspend of £0.1 million against the Revenue Resource Limit (RRL) is reported (see exhibit 4).

35. The board still has significant financial challenges. In order to meet its 2018/19 financial targets, the board received brokerage of £17.6 million. Although this is a significant amount, the brokerage required was £4.7 million less than planned. The final allocation letter which included the additional £17.6 million of brokerage was received by the Board on 6 June 2019.

36. The board has not been able to operate within its Revenue Resource Limit (RRL) without brokerage for the last seven financial years. During this period the board has received £67.8 million of brokerage and repaid £4.3 million. Brokerage outstanding at 31 March 2019 totals £63.5 million.

37. In October 2018, the Cabinet Secretary for Health and Sport announced that all territorial boards' outstanding loans will be written-off at the end of the 2018/19 financial year.

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

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 | 848.8 | 848.7 | 0.1 |
| Non-core revenue resource limit | 31.7 | 31.7 | 0 |
| Total revenue resource limit | 880.5 | 880.4 | 0.1 |
| Core capital resource limit | 13.1 | 13.1 | 0 |
| Non-core capital resource limit | 2.3 | 2.3 | 0 |
| Total capital resource limit | 15.4 | 15.4 | 0 |
| Cash requirement | 904.5 | 904.5 | 0 |

Source: NHS Tayside Annual Report and Accounts 2018/19

38. In 2018/19, the board overspent by £17.4 million. The most significant overspends occurred in:

- Acute services £6.9 million
- IJBs £0.3 million
- Corporate services £4.4 million
- Earmarked savings not achieved £5.5 million.

39. The main reasons for the overspend are:

Acute Services

- £2.5 million - Patient Access and Assurance Division (including £1.7 million of prescribing costs)
- £2.0 million - Medicine Division (£2.2 million mainly due to increased nursing agency costs, offset by small operational underspends and prescribing savings)

IJBs

- £0.3 million - IJBs' overspending relates to Perth and Kinross IJB. Both Angus and Dundee City IJBs show breakeven positions. However, Dundee IJB used reserves to achieve this, which is not sustainable in the longer term. The board is to continue to contribute to discussions on how to ensure sustainable financial balance for all IJBs (see recommendation 3).

Corporate services

- £4.4 million – mainly due to overspending on the cost of patients referred outwith the Tayside area, both to other Health Boards and private providers

Earmarked savings not achieved

- £2.2 million of asset disposals not achieved
- £2.0 million of transformation savings in respect of theatre utilisation and in-patient management and flow not achieved (elective procedures).

40. NHS Tayside continues to have an expensive operating model. Net expenditure in 2018/19 is reported as £925.8 million (2017/18 £900.7 million). There is still only limited evidence of sustainable service redesign and transformation, which will be critical in reducing costs while maintaining or improving service provision.

Efficiency savings

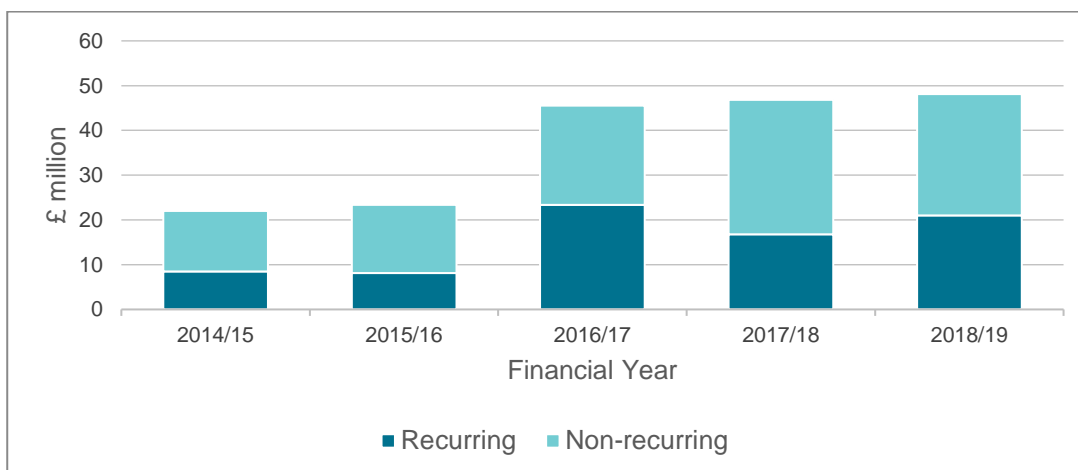
41. NHS Tayside had a financial gap of £48.1 million in 2018/19 and planned to meet this through efficiency savings of £29.4 million and further brokerage of £18.7 million. The £48.1 million excluded £3.6 million which the Board approved as a retrospective repayment to the endowment fund.

42. The board reported that it achieved £32 million of savings, an increase of £2.6 million on the financial plan target savings of £29.4 million. £21.2 million of these savings (44% of the 2018/19 target savings of £48.1 million) were recurring in nature. This is an increase from the 36% recurring savings in 2017/18. 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.

43. The board has been reliant on non-recurring savings in recent years but as illustrated in Exhibit 5, the percentage of reliance on non-recurrent savings has reduced in 2018/19. In our opinion, reliance on non-recurring savings is not sustainable for the board in the longer term and we welcome the improvement in the recurring savings levels. Going forward continued improvement will be critical in achieving financial sustainability.

Exhibit 5

Savings – recurring and non-recurring



Source: NHS Tayside Annual Report and Accounts 2014/15 to 2018/19

44. Internal Audit carried out a review of the controls established to manage the risks relating to the board's savings programme and reported their findings in March 2019. The report graded the audit as 'Adequate (category C)' which meant that business objectives are likely to be achieved but improvements are required.

45. Key findings included:

- the lack of progress in the development of NHS Tayside Clinical Strategy and associated transformation programme leaves significant gaps in the identification of recurrent savings which cannot be addressed solely by the finance department nor through the current savings plan. The 2018/19 savings plan has no identified savings against the Transformation Programme heading (we have reported at paragraph 87 of this report that significant transformational change savings are not identified until 2020/21)
- at the operational level, robust processes for identifying and monitoring current savings initiatives were in place. Internal audit recommended that management's identification and monitoring of remedial actions where delivery is off trajectory needs to be improved
- reporting has improved however this could be further enhanced e.g. year-end forecasting of savings and information on how variances will be addressed and clear delineation between cash releasing savings and efficiency/productivity distinguishing between identified and realised savings and reporting against a target for recurring savings
- reporting on and monitoring of savings to be delivered by the IJBs lacks detail
- strategic risks relating to finance are currently under review and efficiency should be taken into account as part of this work.

46. An action plan has been agreed with management to address the identified weaknesses. The action plan target completion date is June 2019 and internal audit plan to report progress to the Audit and Risk Committee.

47. We have seen some progress since the date of the internal audit report, with the Board's approval of Transforming Tayside, which includes the board's integrated clinical strategy, and some prioritised service design projects on 23 May 2019. Nevertheless, the board is at the early stage of identifying its detailed transformation programme and much work is required to deliver to the level of savings required.

Financial Governance

48. Weaknesses were identified in 2017/18 in the board's financial governance arrangements. The Scottish Government commissioned an independent review of the arrangements by Grant Thornton, who reported their findings in May 2018 and agreed an action plan with the board for improvement actions to be taken forward in 2018/19. The action plan improvement areas included:

- budgetary processes
- financial reporting
- internal audit
- non-executive members' training
- organisational culture
- the introduction of a recommendation tracker.

49. The board introduced a recommendations tracker in 2018/19 which includes status updates on recommendations in external reports e.g. external audit, the Grant Thornton review and the Institute of Internal Auditors, and which is regularly presented to the Audit and Risk Committee for review. The latest recommendation

tracker in March 2019 shows that the actions from the Grant Thornton review have been implemented.

Budgetary processes

50. We reviewed NHS Tayside's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we observed that senior management and members receive regular, timely and up to date financial information on the board's financial position against its budget.

51. We reported in our 2017/18 Annual Audit Report on the board's intention to introduce an enhanced business planning and budget process (BPBP) for the 2018/19 budget process to replace the existing incremental budgeting approach. This process is linked to enhanced service planning and based on a longer-term commitment to the delivery of transformational change and financial sustainability

52. Internal audit reviewed the implementation of BPBP and reported their findings to management in December 2018. Internal audit concluded that BPBP was a significant improvement in the financial planning process and provides a sound basis, once embedded, for future years' financial plans. Internal audit also highlighted a number of delaying factors in implementing BPBP which meant that the 2018/19 financial plan was not submitted until June 2018, including the complexity of the revised process, parallel corporate restructuring and delays under previous management. But they commended finance service management for what had been achieved in the timeframe.

53. Internal audit also concluded that BPBP provides the board with a solid understanding of its current cost base but delays in the production of the integrated clinical strategy created gaps in the financial planning process that can only be resolved by transformational change, supported by a clear clinical strategy. In addition, the eHealth strategy and asset management strategy were insufficiently detailed at that time to facilitate robust financial planning in these areas. This remains the case.

54. Management has agreed an action plan following the internal audit review with actions targeted to be completed by August 2019. A key component of the plan was for a full project plan to be prepared for the 2019/20 financial plan identifying time constraints and deadlines. Management set out a three-year financial plan for 2019/20 – 2021/22 which was approved by the Board in April 2019. Further observations on the three-year financial plan are noted in part 3 of this report (Financial Sustainability).

55. We concluded that NHS Tayside has appropriate budgetary monitoring and control arrangements that allow members and officers to carry out scrutiny of the board's finances.

Financial reporting

56. We reported in our 2017/18 Annual Audit Report on the improvements to financial reporting following the appointment of the Director of Finance who had introduced a new format of reporting. Internal audit reported on this area in May 2019, following their review of financial management, and also concluded that there was good reporting at operational (management) level and governance (leadership/ committee) level with detailed information in a refreshed format of reporting.

57. Unspent non-recurring income (commonly referred to by NHS Tayside as deferred expenditure) has been the subject of concern in recent years. NHS Tayside has taken positive steps to reduce the balance and it has reduced from £15.676 million at 31 March 2018 to £5.855 million at 31 March 2019. Although this was not reported throughout the year, a presentation was given to the Policy and Resources Committee in June 2019 to inform members of the year end position.

58. We have concluded that financial reporting has improved in 2018/19. Senior management and committee members received regular, timely and up to date financial information on the board's financial position.

Tayside Health Endowment Fund

59. In our 2017/18 Annual Audit Report we reported on allegations that were made in the media about the misuse of Tayside Health Endowment Fund (the Endowment Fund) monies by NHS Tayside (with temporary variation of the fund's policy and procedures to facilitate approval of retrospective expenditure proposals). This allegation relates to retrospective approval of funding in the 2013/14 financial year.

60. Following the allegations, two independent reviews were commissioned:

- Grant Thornton - the review of financial governance included a review of the use of endowment fund monies
- Office of the Scottish Charity Regulator (OSCR) inquiry into specific circumstances of the use of funds by the Endowment Fund.

61. In June 2018, the Board approved the proposal to make a repayment of £3.6 million to the Endowment Fund to reimburse the fund for monies transferred to NHS Tayside retrospectively in 2013/14. We recommended that Board members should satisfy themselves on the specific statutory references that the board has used to support the transfer of board funds to the endowment fund and that Board members should seek these assurances before approving the repayment. We have confirmed that the Board obtained confirmatory legal advice to support the repayment, which was made in January 2019.

62. OSCR concluded in their report dated February 2019 that in respect of the funding in 2013/14:

- the temporary variation was within the powers of board members
- the decision-making process was rushed and did not reflect good practice
- the decision did not reflect a sufficient degree of detachment from the Health Board or recognise that the charity's interests should be considered separately from those of the Health Board.

63. OSCR subsequently made recommendations on the separation of membership of charities' Board's and the Health Boards which are being considered nationally. An action plan has been prepared which was presented to the Endowment Fund Board of Trustees in February 2019. All actions which the Trustees and the Endowment Fund Lead officer are responsible for have been completed.

Financial capacity

64. We reported in our 2017/18 Annual Audit Report that interim arrangements were put in place following the departure of the then Director of Finance in 2018 to manage the board's financial arrangements. In March 2018, the Scottish Government appointed an interim Director of Finance who was subsequently given the role on a permanent basis. This role is carried out alongside his existing role as NHS Grampian Director of Finance.

65. Management previously advised us that by June 2018, a comprehensive review of the finance team would be undertaken and steps taken to ensure that there is the appropriate capacity in place to carry out day to day functions and provide support for the transformation programme.

66. Update papers were presented to the Audit Committee in September and December 2018 and confirmed that appropriate arrangements are in place to carry

out the day to day functions of the Directorate. Since December, a redesign of the management accounting function and support to the three Integration Joint Boards has been undertaken and is in the process of being implemented. Two new senior posts in the management accounting function have now been appointed, with one of the posts aligned to supporting the implementation of Transforming Tayside.

67. The next phase of the process in the implementation of a new Finance Directorate structure will be a review of the financial services functions and it is expected that this will be progressed in this calendar year.

68. Following a review of the Executive Leadership Team by the incoming Chief Executive the role of the Director of Finance has been reviewed. A report to the Remuneration Committee on 19 June 2019 says that “following discussion with the Chairman and Chief Executive, and reflective of the changed circumstances of this Board, it has been agreed to appoint to a full time Director of Finance Post for NHS Tayside”.

Shared systems

69. 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 procures a service audit of the National Single Instance eFinancials service.

70. As your external auditor we have considered the content of these service auditor assurance reports. There are no significant findings to draw to your attention.

Part 3

Financial sustainability



Main judgements

In May 2019 the Board approved '*Transforming Tayside 2019-22*', which sets out a high level overview of its three year programme for change. The detailed transformation programme required to deliver the level of savings required by the board is still to be developed.

In 2018 the Cabinet Secretary for Health and Sport announced a new approach to financial planning and target setting for Scottish NHS boards, with a requirement to break even over three years.

The board's high-level three-year financial plan shows the board will achieve break even by 2021/22. However, the plan anticipates forecast deficits over the period. There is currently a lack of clarity on how these deficits will be funded.

In the medium to longer term, planning processes should include scenario planning or modelling of the assumptions used.

Financial planning

71. Since 2012/13 the board has received £67.8 million of brokerage and repaid £4.3 million. The Scottish Government announced in October 2018 that all outstanding brokerage from the last five years will be written off at 31 March 2019. This will result in the board starting with a clean slate from 2019/20.

72. In 2018 the Cabinet Secretary for Health and Sport announced a new approach to financial planning and target setting for Scottish NHS boards. Scottish Government guidance issued in February 2019 states that Boards are required to set out a breakeven position over the three-year planning period from 2019/20. Boards that cannot deliver a breakeven position over three years will remain in escalation. This is a risk for NHS Tayside.

73. The high-level three-year financial plan, approved by the Board in April 2019, shows the board will achieve break even by 2021/22 (see exhibit 6). There is currently a lack of clarity on how the forecast deficits will be funded.

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

Exhibit 6

Projected financial savings 2019/20 to 2021/22

| | 2019/20 £m | 2020/21 £m | 2021/22 £m |
|--|---------------|---------------|---------------|
| Funding gap | (35.7) | (32.1) | (29.1) |
| Savings | | | |
| Transforming Tayside | 0.5 | 7.5 | 12.5 |
| Regional and National | 0 | 0 | 0 |
| Productivity gains (elective and unscheduled care) | 8.6 | 4.6 | 2.2 |
| Cost reduction plans | 11.4 | 10.4 | 10.4 |
| Financial flexibility | 4.0 | 4.0 | 4.0 |
| Forecast deficit | 11.2 | 5.6 | 0 |

Source: NHS Tayside Three Year Financial Plan

74. We reviewed the financial planning systems of NHS Tayside and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

75. The board's three year financial plan sets out the high level savings targets needed to achieve break even by 2021/22, however other than some recognition of savings activities around the three year Quality Improvement Programme there is no detail of the specific savings initiatives to meet the savings targets. A lot of work has yet to be carried out which will help identify the detailed savings, including work on the Safe Affordable Workforce (SAW), the Property Asset Management System (PAMS), the eHealth Strategy and the details of the Transformation Programme.

76. With the introduction of the Scottish Government's five-year Medium-Term Financial Strategy (MTFS) in May 2018, there is an opportunity to look beyond the three-year cycle to a 5-10 year financial planning cycle, reflecting the corporate priorities and transformation programme within Transforming Tayside and incorporating scenario planning and financial modelling.



Recommendation 2

The board should develop a medium to long term financial plan from 2020/21 that reflects the board's clinical strategy and the transformation programme.

Transformation Programme

77. NHS Tayside initially established a five-year transformation programme in 2015, covering the period 2017/18 to 2021/22. The focus of the plan was based on improved productivity and efficiency, service redesign and transformation. This transformation programme has delivered substantial cost savings through

efficiency and productivity measures but has not yet delivered the recurring savings necessary through service redesign and transformation.

78. In April 2017, the Scottish Government established an independent Assurance and Advisory Group (AAG). In its initial staging report in June 2017, the AAG identified ten recommendations for management to take forward in delivering the board's transformation programme. In its report to the AAG in January 2018, progress was reported on five of the recommendations but that the other five recommendations are longer-term and will take more time to evidence delivery. A further update reported by the AAG in December 2018 stated that *"While we are of the view that NHS Tayside is on the road to recovery, much more needs to be done: encouraging incremental change has happened but transformational change still beckons and is imperative"*.

79. We reported in our 2017/18 Annual Audit Report that the new senior management team has reviewed NHS Tayside's approach to transformation and has developed plans to deliver change through a combination of *Transforming Tayside* (including its long term clinical strategy); a three-year Quality Improvement Programme; and actions to deliver immediate financial efficiencies.

80. Management noted that a Transformation Status Report was scheduled to be presented to the Board in June 2018 with progress towards the introduction of a new transformation programme later in 2018. Management also reported that the Board had committed to considering an Integrated Clinical Strategy by December 2018.

81. In June 2018, the Board reviewed and endorsed the development of three interlinked elements of transformation; *"Transforming Tayside: working in partnership to improve health and social care for the future"* (the Integrated Clinical Strategy); a three-year Quality Improvement Programme (QIP); and the 2018/19 Financial Plan to deliver greater efficiencies and the bring the budget into balance. The Integrated Clinical Strategy sets out the vision for the next ten years and is the Board's strategic framework in response to the National Clinical Strategy, the Health and Social Care Delivery Programme and the challenges posed by the Scottish Government's *"Realistic Medicine"*. It has involved engagement with all stakeholders and critically, is clinically led.

82. The clinically led three-year QIP has identified six major quality improvement programmes which can deliver efficiencies in the medium term: Transferring Outpatients; Inpatient Flow; Theatre Utilisation; Mental Health Improvement; Prescribing and Medicines Management and Primary Care Improvement. A Clinical Design Authority has been established to provide clinical direction and design of the three-year programme which initially focusses on acute, hospital based unscheduled and planned care..

83. In October 2018, a progress report was presented to the Board. The report stated that despite progress being made, planning was not yet sufficiently integrated or rigorous and aspirations were not sufficiently aligned with those of the board's wider public sector partners. Nor did the board have the necessary capacity and capability to take forward the programme, especially in relation to strategic planning and modelling. The progress report highlighted the need for "a 'plan for a plan' that sets out and prioritises actions needed to develop a set of clearly articulated and credible strategic options that can form the basis for formal public consultation". The 'plan for a plan' was scheduled to be submitted to the Board at its meeting in December 2018, however this target was not achieved.

84. In Internal Audit's report on the Internal Control Evaluation, presented to the Audit Committee in January 2019, the Chief Internal Auditor included a number of findings relating to transformation, including delays in presenting the 'plan for a plan' for the Integrated Clinical Strategy, new governance arrangements for 'Transforming Tayside', an update on the acute services redesign and a site review. The Chief Internal Auditor also noted that transformation is taking longer than originally expected.

85. A progress update report to the Board in February 2019 included further information on *Transforming Tayside* governance arrangements regarding the terms of reference for the Transforming Tayside Steering Group (an advisory group) and the Transforming Tayside Programme Board (a decision taking group). The progress update also noted that details of the Transforming Tayside individual projects, plans and initiatives would be presented to the Board in April 2019. This target date was not achieved. In May 2019 the Board approved '*Transforming Tayside 2019-22*', which sets out a high level overview of its three year programme of change.

86. Much work still has to be done on the detail behind the high-level plan including strategic assessments, engagement and consultation, development of business cases, project implementation and post project evaluation and the programme will continue to develop and expand over time.

87. We welcome the steps taken in 2018/19 relating to *Transforming Tayside* but consider that progress has taken longer than anticipated. We note that targeted savings arising from the *Transforming Tayside* programme are not significant until 2020/21. We will continue to monitor the development of the detailed transformation programme and the pace of transformation during our 2019/20 audit.

Transformation and efficiency savings

88. As illustrated in Exhibit 6, annual savings of £24.5 million, £26.5 million and £29.1 million are targeted over the next three years. Recurring savings included in these sums are £12.7 million, £13.4 million and £14.9 million.

89. Much work has yet to be done to formalise the Transforming Tayside savings proposals and business cases are to be considered by the Board throughout 2019/20. A Project Management Office has been established to support the programmes and ensure that there is a structure and process for prioritising and planning critical initiatives.

90. Service cost reduction plans involve a 2% cost reduction target. Plans are to be developed to support delivery of these savings and will include output from the 'Safe Affordable Workforce' (SAW) process and local service actions. The SAW process is referred to further at paragraph 103 on Workforce Planning. The service cost reduction plans will be more challenging going forward, given that much of the easier savings will have already been achieved.

91. The board's current focus under regional and national planning is on improving service resilience and maintaining access to services rather than the delivery of productivity or efficiency savings therefore no savings from these initiatives have been assumed. Going forward, this will be monitored by the board.



Recommendation 3

The board should ensure that robust, risk-assessed savings plans are developed identifying the recurrent level of savings and how the total 2019/20 savings will be achieved. Review of IJB financial plans to ensure services are sustainable should be considered as part of savings plans.

Asset management

92. NHS Tayside is required to manage its hospitals, community buildings and other assets, (e.g. medical equipment) effectively to ensure patients receive high quality care. It is also required to have a Property and Asset Management Strategy (PAMS) in place which is reviewed and approved annually by the Board and

provides information on the suitability of the board's estate, including its condition, in supporting the Board's strategic objectives.

93. NHS Tayside does not have a comprehensive or complete understanding of its asset base including: masterplans of its four main sites; site usage; building quality; and infrastructure requirements. Consequently, it does not have comprehensive estimates of the costs to maintain or develop its asset base, aligned to a clinical strategy. Officers advised the Performance and Resources Committee in November 2018 that work had commenced to address this.

94. The PAMS is under review and will see a shift to a Regional Asset Management Plan (RAMP) covering all NHS Boards in the North region. The RAMP is scheduled for completion by December 2019 after which it will be presented to the NHS Tayside Board. We plan to review the content of the new RAMP as part of our 2019/20 audit.

95. The board reconstituted its Capital Scrutiny Group into an Asset Management Group with a revised remit. The new group is responsible for identifying actions to be taken in response to the asset management plan and is intended to strengthen the link between property and asset management and the financial planning process. It is early days for the Group but there are signs that it is having a positive impact.

96. An update report on asset management was scheduled to be presented to the Board in February 2019. This was delayed, with the update report being presented to the Performance and Resources Committee on 11 April 2019. The update report set out the 2018/19 capital plan break even position for 2018/19 and highlighted the draft Five Year Capital programme which was scheduled to be approved by the Board in April 2019. The report also updated the Committee on the development of the Asset Management Plan and advised that progress in this area would be reported to the Committee as work progressed.

97. The five-year infrastructure finance plan 2019-24 (Capital Plan) was approved by the Board on 25 April 2019. The plan includes £163.9 million of capital investment over the period and is based on completion of legacy capital projects and an overview of current priorities. It focuses on actions relating to:

- investment in infrastructure consistent with the Board's strategic health priorities
- reduction in high and significant risk backlog maintenance and compliance with statutory requirements (overall investment of £163.9 million includes £55.2 million of backlog maintenance over the five-year period)
- replacement of essential equipment
- disposal of assets that are surplus to requirements.

98. The plan recognises the need to ensure that the board's infrastructure supports *Transforming Tayside* and the *NHS National Delivery Plan*. The Asset Management Group has reviewed the infrastructure plans and commissioned the following:

- major site development plans for sites at Ninewells, Perth Royal Infirmary, Stracathro and Kings Cross Hospital. The plan for Ninewells is likely to take up to 2 years to complete
- development of a primary care premises strategy
- assessment of the eHealth infrastructure and the development of a delivery plan

- strategic risk assessed service improvement e.g. Critical Care Unit, radiotherapy replacement programme and replacement of all patient monitoring systems.

99. While progress has been made in this area, much work remains to develop a robust investment plan, linked to *Transforming Tayside* and the transformation programme.



Recommendation 4

NHS Tayside should conclude its review of the asset management plan as soon as practicable and report its findings to the Board. The report should include details of how the asset base is aligned to *Transforming Tayside* and the financial plan.

100. The board reviewed its backlog maintenance requirement at March 2019, backlog maintenance requirements are £104 million. As noted above, the board has committed £55.2 million to programmes that will reduce the level of backlog maintenance over the next five years. £41.1 million of this sum relates to the Ninewells Infrastructure project.

Workforce planning

101. In July 2017 the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce Planning. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels. NHS Tayside faces all these workforce challenges.

102. A draft Corporate Workforce Plan 2018/19 was developed and presented to the Staff Governance Committee in October 2018. Management reported that the plan was not finalised as it was dependent upon the outcome of the Integrated Clinical Strategy and Scottish Government agreement to the changes in services. A workforce plan has not been developed for 2019/20, as further development is required to reflect the transformation programme for NHS Tayside. The 2018/19 plan, which reflects the direction of travel and development for the board is extant.

103. The board introduced a Safe Affordable Workforce (SAW) review of staff numbers, experience, grades and skills process and an update was provided to the Performance and Resources Committee on 18 December 2018. SAW now features as part of NHS Tayside's Transformation Programme with transformation initiatives expected to demonstrate the principles of SAW, including workforce planning and projections associated with each change.

104. On 29 January 2019 the Staff Governance Committee received an update on the workforce profile. Work has begun in relation to existing workforce plans and aligning them with the financial plan, but for the period 2019/20 to 2021/22 projections will be flat-lined while this work is going on. We understand that workforce projections over the next three years will be submitted to the June 2019 Staff Governance Committee meeting.

105. The 2018/19 workforce plan noted that as at March 2018, 40.6% of the workforce was aged over 50 (as at April 2017, 39.7%). December 2018 data notes the figure as 42.07%. A related challenge is an increasing trend in nursing and midwifery turnover for staff in the over 50 group. NHS Tayside continues to work on age profile modelling, supporting services to develop sustainable models of care, including reviewing working patterns to take account of the impact of an ageing workforce on the pattern of delivery of care. Work is also ongoing to support young people in entering and progressing in the organisation

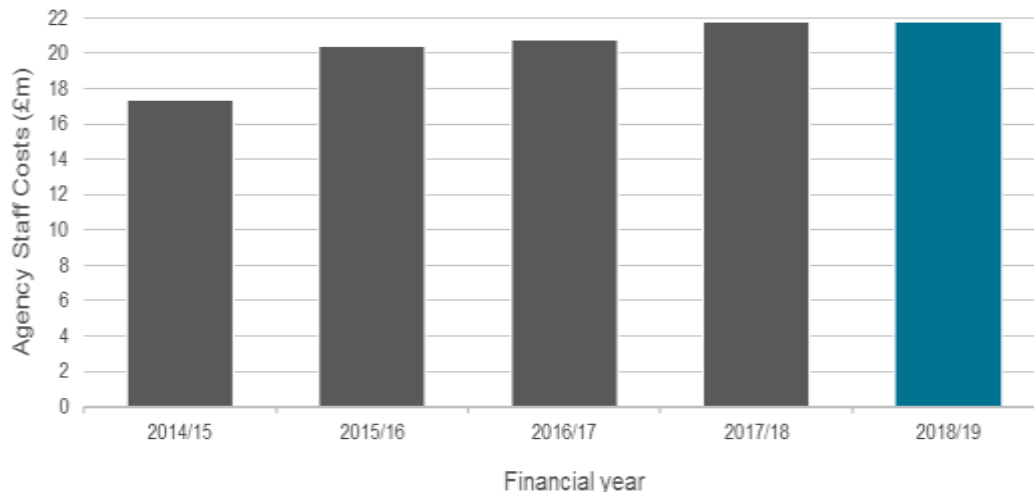
106. NHS Tayside is also facing challenges in recruiting and retaining staff with turnover rates increasing. NHS Tayside's overall staff turnover was 9.05% in 2017/18. During 2018/19 the monthly turnover rate varied between 9.1% and 11.6%, with the most recent figure at December 2018 being 9.7%.

107. NHS Tayside is committed to improving staff experience through better staff engagement and development. NHS Tayside considers this to be an underlying factor to achieve strong retention rates. Proactive steps are also being taken to attract new applicants to NHS Tayside e.g. attendance at career fairs, digital media recruitment, specific recruitment campaigns to attract qualified practitioners and direct offers of employment to adult nursing and mental health nursing newly qualified practitioners from the Universities of Dundee and Abertay.

108. As a result of recruitment and retention problems and pressures to meet waiting time targets, expenditure on temporary staff has increased over the last five years as illustrated in Exhibit 7. The cost has stabilised in the last two years but remains high at £21.8 million.

Exhibit 7

Temporary staff costs



Source: NHS Tayside annual report and accounts 2014/15 to 2018/19

109. Exhibit 8 shows that for 2018/19, bank costs have increased by £1.6 million and agency costs decreased by £1.4 million compared to the previous year. The increase in bank costs reflects more extensive use of the nurse bank with the aim of reducing premium agency costs.

110. The continued use of temporary staff puts pressure on the board's budget and does not represent value for money. The review of the workforce, alongside the delivery of Transforming Tayside is key to addressing this. NHS Tayside is closely monitoring its supplementary spend.

Exhibit 8

Supplementary staff costs breakdown

| | 2018/19 £ million | 2017/18 £ million | Change £ million |
|------------------------|----------------------|----------------------|---------------------|
| Excess part time hours | 3.5 | 3.3 | 0.2 |
| Overtime | 3.1 | 3.5 | (0.4) |
| Bank staff | 8.5 | 6.9 | 1.6 |
| Agency costs | 6.7 | 8.1 | (1.4) |
| Total | 21.8 | 21.8 | 0 |

Source: NHS Tayside Financial Report for Period End March 2019

111. NHS Tayside like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. In recognition of the difficulties boards are having in this area, the Scottish Government announced that boards should work towards reducing sickness absence by 0.5% per annum over 3 years, beginning on 1 April 2019, with the aim of achieving the overall NHS Scotland target of less than 4.0%.

112. NHS Tayside's sickness absence rate has increased over 2018/19 and at March 2019 was equivalent to the NHS Scotland national average at 5.4%

113. Detailed absence information reports are shared with services on a monthly basis and these show that sickness levels are higher within the board's support services and nursing and midwifery.

114. NHS Tayside aims to improve sickness levels though supporting positive attendance and promoting employee wellbeing. Regular scrutiny of areas with high levels of absence will also be carried out.

EU Withdrawal

115. 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.

116. NHS Tayside has been making plans during 2018/19 to address the risks associated with EU withdrawal, including preparing impact assessments for all major service supply areas. However, no reporting on preparations for EU withdrawal have been presented to the Board.

117. NHS Tayside has also been updating its Business Continuity Plans in light of EU withdrawal and as of May 2019, 91 out of 114 plans had been updated.



Recommendation 5

The board should complete its update of Business Continuity Plans in light of EU withdrawal. It should also report on the preparations underway for EU withdrawal to the board.

118. Aside from the absence of reporting on preparations to the Board we have concluded that NHS Tayside has made reasonable plans around readiness for EU withdrawal.

Part 4

Governance and transparency



Main judgements

In 2018 a new Chair and interim Chief Executive were appointed to make urgent improvements in the board. A permanent appointment was made to the post of Chief Executive, but the board has not been able to recruit a replacement for the current Chair.

There has been significant change in Board membership since 1 April 2018. Two new Non-Executive Director posts remain vacant.

There are a number of vacancies in key leadership posts. Appointments to the new leadership/management structure will be critical in bringing in the capacity to deliver stable, effective leadership that can deliver transformation.

Reviews of the board's corporate governance arrangements have been completed and a number of improvements made. We have concluded that in 2018/19 NHS Tayside had adequate governance arrangements in place. Further improvements are planned during 2019/20.

Progress with development and implementation of the board's risk management processes has been slow over time, but improvements have been made in 2018/19. Review of the risk management system is ongoing to align it with the board's strategic planning and performance management arrangements.

Internal audit generally operates in accordance with Public Sector Internal Audit Standards (PSIAS). There was slippage in 2018/19 against the internal audit plan but priority was given to audit work which provided assurances for the Corporate Governance Statement.

Ministerial intervention

119. In April 2018, as a result of continued concerns over the financial sustainability of the board, together with weaknesses identified in its governance arrangements relating to the use of eHealth funding and endowment fund monies, the board was moved to the level 5, the highest level of Scottish Government escalation, under the Cabinet Secretary for Health and Sport's power of intervention. These issues and the improvement actions taken by the Board were reported in detail in our 2017/18 Annual Audit Report.

120. Following this, a new Chair and interim Chief Executive were appointed to the NHS Tayside Board. A formal appointment to the Chief Executive position was made in January 2019. As a result of improvements put in place by the new Executive Leadership team, the board's level of escalation was reduced to level 4 in February 2019. Level 4 escalation is where there are significant risks to delivery, quality, financial performance or safety and senior level external support is required.

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.

121. In May 2019 the Scottish Parliament's Public Audit and Post Legislation Scrutiny Committee (PAPLS) published a report on the 2016/17 and 2017/18 audits of NHS Tayside. The report reflects the findings in the Auditor General's recent statutory reports on NHS Tayside and evidence considered by the Committee on these audits. It includes key findings and recommendations for the Board and the Scottish Government. The issues referred to in this report are covered within this report. The Director of Finance intends to present a paper to a future meeting of the Audit and Risk Committee.

Former Chief Executive departure

122. Following NHS Tayside's move to the highest level of escalation in April 2018, the former chief executive had her accountable status removed. Her employment with NHS Tayside ended on 31 July 2018 and a negotiated settlement was agreed for her departure.

123. The findings from our review of the payments made to the former Chief Executive were included in the Auditor General's Statutory Report on the 2017/18 audit of NHS Tayside which was considered by PAPLS in December 2018. They were also included in our report on the payments relating to the departure of the Chief Executive, which was presented to the Audit Committee in January 2019.

124. Our report concluded that the approach taken by the board to negotiate the settlement was reasonable, but errors were made in the process and the settlement business case submitted for approval by the Scottish Government did not contain all the pertinent information. The report was presented to the Audit Committee in January 2019.

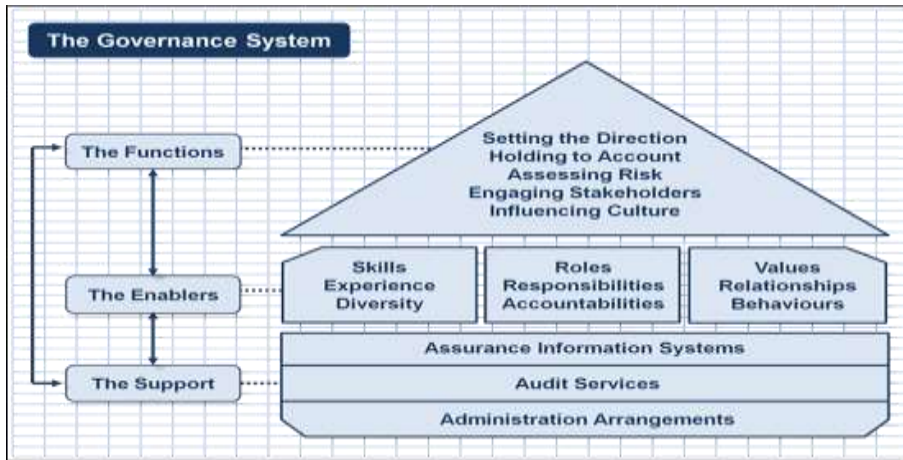
125. The errors in the payments made related to pension payments of £19,135. We have confirmed that NHS Tayside has recovered the overpayment.

Corporate governance review

126. In our 2017/18 Annual Audit Report we reported that a number of weaknesses had been identified in the way in which the governance arrangements had been operating, which impacted on the effectiveness of the board's governance framework. This position was reflected in the Governance Statement included in NHS Tayside's 2017/18 Annual Report and Accounts in which the accountable officer was "not able to conclude that, taking into account the governance framework and assurances and evidence received from the board's committees, that corporate governance was operating effectively throughout the financial year ended 31 March 2018".

127. Following his appointment in April 2018, the Chairman of the Board commissioned an independent review of corporate governance. The review used the governance blueprint developed for NHS Scotland, which sets out a three-tiered model as shown in exhibit 9. NHS Tayside has reviewed its arrangements for each element of the three-tiered model and progress reports have been presented to the Board.

Exhibit 9 Governance System



Source: Report to the Board April 2019: Corporate Governance in NHS Tayside

128. The Scottish Government formally issued its blueprint in February 2019 and required all NHS Boards to complete a survey, participate in a development session during March, consider and agree a self-assessment report on the outcome to its Board before submitting the report to the Scottish Government.

129. NHS Tayside submitted its report to the Board in April 2019. The report states that progress in this area has been positive but recognises that there is still work required to further strengthen the corporate governance model and an action plan has been produced which is scheduled to be complete by September 2019 and which will be monitored by the Board.

130. We recognised that progress has been made including:

- approval of *Transforming Tayside* and its governance structures
- improved financial and performance reporting
- development of an engagement strategy
- improvements to the committee structure, including improved effectiveness of the Audit and Risk Committee.

131. Outstanding actions contained within the board's action plan include:

- improving how the Board communicates clear statements of intention, vision, direction of travel and priorities to stakeholders
- further develop the systems and processes for sharing financial and performance management information
- improving Board Member induction and on-going development
- improving risk escalation and understanding the Board's risk appetite
- continuing to embed recent improvements in partnership working with IJBs
- improving administration support.

Setting Direction

132. The Board endorsed the development of “*Transforming Tayside*” (including the Integrated Clinical Strategy) in October 2018. A formal version of “*Transforming Tayside*” was approved at a Special Board Meeting on 23 May 2019. NHS Tayside has recognised that this is a starting point for the board’s clinical strategy and that it will develop over time.

133. “*Transforming Tayside*” sets out the board’s ambitions, which reflect the Scottish Governments aims of Better Health, Better Care and Better Value as well as the aim of a Better Workplace and reflects a number of key national plans including:

- National Clinical Strategy for Scotland 2016
- Health and Social Care Delivery Plan 2016
- Realistic Medicine
- National Waiting Times Improvement Plan 2018
- Review of Public Health in Scotland 2015
- Mental Health Strategy 2017-27.

134. “*Transforming Tayside*” includes the governance arrangements for the board’s future transformation programme. These include a Clinical Design Authority reporting to the Transforming Tayside Programme Board and then on to the Board and IJBs through an advisory Transforming Tayside Steering Group. Various other groups support the Clinical Design Authority and Transforming Tayside Programme Board e.g. Asset Management Group, Safe Affordable Workforce Group, Working Together in Tayside Group and various Service Design Groups. A Programme Management Office has also been established to manage the programme. These arrangements were approved by the Board on 23 May 2019.

135. In our view, the governance arrangements for “*Transforming Tayside*” are appropriate but it is too early to conclude on the effectiveness of the arrangements.

Holding to account - committee governance arrangements

136. There has been significant change in Board membership since 1 April 2018 with 14 Members leaving the Board and 11 new Members joining. In addition, the Cabinet Secretary for Health and Sport granted a request from NHS Tayside for an additional two Non-Executive Directors to be appointed, due to the significant workload placed on the Board, although neither of the two additional positions have been filled. The significant change in Board membership has resulted in significant change of membership and chairing of individual committees.

137. Changes to the committee structure were also made in 2018/19 including:

- the introduction of a Public Health Committee (this first met in May 2019)
- the transition of the Audit Committee to an Audit and Risk Committee to give an increased focus on scrutiny of risk management.

138. Board and committee papers are well prepared and are issued in sufficient time of advance of meeting for review. Sufficient time is also allowed to discuss the issues on the agenda, and committee members are well prepared and ask appropriate questions.

139. We regularly attend the Audit and Risk Committee and have found the new membership to be effective, aided by the introduction of two advisers with financial expertise.

140. With the significant change in Board membership, NHS Tayside has considered the training requirements of Board Members. All Board Members have received induction training and attended an 'On Board' training course delivered to members of public bodies in Scotland. Regular informal meetings with the Board's vice chair have also been introduced.

141. During the planning of this year's audit we were advised of further training and developmental activity which is currently ongoing, including:

- attendance at other external training events such as the essential governance training for Board members and effective audit and risk committee training
- bespoke governance training for non-executive members by 31 May 2019
- non-executive appraisal to be completed by 31 March 2019
- review and mapping of the skill matrix against the Board's future requirements, once the recruitment of new non-executives is complete
- an implementation plan has been developed for the Leadership Programme which includes outcomes required and measures to be used to determine success. The Staff Governance Committee will provide scrutiny of the Collective Leadership Programme and report progress to the Board at regular intervals.

142. Further action to be taken on Board Member training and development is included in the 'Corporate Governance in NHS Tayside's action plan and is targeted for completion by 26 July 2019. The action plan includes:

- completing the 2018/19 appraisal programme and introduction of personal development plans for Board Members
- constructing a Board training needs analysis and skills development programme to meet the needs identified in individual personal development plans
- review of the existing Board induction programme.



Recommendation 6

The board should complete its review of Board Member training and development needs. Progress with the new leadership programme should also be reported to the Staff Governance Committee as planned.

143. We have concluded that the committee arrangements are appropriate and adequate in order to support good governance and accountability. Further work is required on training and development to support Board Members in improving their capacity to scrutinise and hold to account.

Openness and transparency

144. There is an 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.

145. There is some evidence where NHS Tayside demonstrates transparency including:

- public availability of board papers
- the annual accountability review (where members of the public can attend)
- improvements to the form and content of the annual report and accounts, which are readily available on the NHS Tayside website.

146. In our 2017/18 Annual Audit Report we reported that the Office of the Scottish Information Commissioner (OSIC) had opened a Level 2 Intervention in relation to concerns regarding NHS Tayside's compliance with Freedom of Information legislation and associated statutory codes of practice. OSIC found that good progress had since been made by the board, with the timeous responses rising to 88% (in January 2019) which was a significant improvement on the previous quarter to September 2018 (72%).

147. The FReM requires the remuneration report in the Annual Report and Accounts to include remuneration details for senior employees. These are defined as "the management board (including advisory and non-executive members) having authority or responsibility for directing or controlling the major activities of the entity during the year. This means those who influence the decisions of the entity as a whole rather than the decisions of individual directorates or sections within the reporting entity".

148. The FReM states that it is for each Board to determine the individuals for whom disclosure should be made and that the Chief Executive is required to confirm whether this covers more than the Executive and Non-Executive Directors of the Board. The Chief Executive has decided that only Board members are included in the remuneration report. Our review of other NHS Health Board Annual Report and Accounts shows some other boards with senior employees disclosed in their remuneration reports. In our opinion, there are other officers e.g. the Deputy Chief Executive or the IJB Chief Officers, with the power to influence the decisions of the entity (in an advisory capacity) who could be considered for disclosure to increase the transparency of the board's remuneration costs.



Recommendation 7

The board should review the disclosures in the remuneration report for 2019/20 and consider the status of the senior officers, such as those we have identified.

149. Overall, we have concluded that NHS Tayside conducts its business in an open and transparent manner.

Risk management

150. The assessment of risk is a key feature of the NHS Scotland Blueprint for Good Governance model and '*Transforming Tayside*'. The Blueprint highlights the importance of risk management to the achievement of the organisation's objectives.

151. Progress with improvements in risk management has been slow however risk management arrangements were strengthened in 2018/19, including:

- a refresh of the Strategic Risk Management Group (SMRG) which is now scheduled to meet six times a year (previously four) and is now chaired by the Chief Executive (since September 2018)
- the approval by the SMRG of a revised risk assurance report template

- the strategic risk register and risk profile was reviewed and high level risks re-assessed (although work is ongoing in this area)
- increased focus on the scrutiny of the risk management arrangements by the Audit and Risk Committee
- the creation of a Director of Governance, Risk and Compliance post to whom the board's Risk Manager directly reports.

152. At its meeting in December 2018, the Audit Committee considered the Risk Management Mid-Year Review report, which acknowledges that further work is required to focus on risk assurance through risk mitigation and robust effective actions.

153. Internal audit reported on risk management in their 'Internal Control Evaluation' which was submitted to the Audit Committee in January 2019. Internal audit reported on the ongoing review of the strategic risk management system to align it with the board's strategic planning and performance management arrangements. They also reported that the board's risk profile remains very high and that enhancements to the risk management system alone will not be sufficient to reduce the risk profile and management's ability to mitigate the risks effectively would be a key factor.

154. Internal audit reported their findings from their review of the risk management arrangements in June 2019 and concluded that risk management systems and processes are 'broadly satisfactory' but the effectiveness of those systems and processes are only 'adequate' and improvements are required in their application.

155. Four papers on risk management were scheduled to be presented to the Audit and Risk Committee in May 2019:

- risk management annual report 2018/19
- risk management work plan 2019/20 (including a two-year risk management improvement plan)
- risk management - assessing the organisation's risk maturity (a self-assessment)
- strategic risk profile 2019/20 update.

156. The first three reports were delayed and the risk management annual report 2018/19 is to be presented to the Audit and Risk Committee in June 2019, with the remaining reports scheduled for the September 2019 Audit and Risk Committee meeting.

157. The Risk Management Annual Report for 2018/19 highlighted improvements that had been made in 2018/19 but recognised that further improvement was required. The self-assessment was carried out by the Risk Manager in consultation with Regional Audit Manager using an Institute of Internal Auditor's toolkit and was validated by the Chief Internal Auditor. The self-assessment concluded that no significant areas of non-compliance were identified but improvements were required which have been incorporated into the two-year improvement plan. Improvements set out in the two-year plan include:

- a Board development session to be held on risk management and assurance. This was held in May 2019.
- a review of the Board's risk appetite is to be undertaken by the Director of Governance, Risk and Compliance, supported by the Chief Internal Auditor
- review of the Datix risk management system, which is currently experiencing challenges

- a thorough review of risk management guidance
- contribution to a review of the Health and Social Care Integration (HSCI) risk management policy and strategy.

158. The latter action would help address the issue that we raised in our 2017/18 Annual Audit Report where we reported on a lack of clarity of the impact of health and social care integration on the accountability and risk management arrangements. This resulted in a need to fully clarify and understand governance arrangements including those associated with risk management and risk ownership.

159. We have concluded that progress with risk management has been slow. Further improvements are required to achieve an effective risk management system and an improvement plan has been put in place. The accountability and risk management arrangements relating to Health and Social Care Integration still needs to be clarified.

Engagement with stakeholders

160. The introduction of *Transforming Tayside* will bring about significant changes in the way that NHS Tayside delivers its services. Engagements with stakeholders will be critical in delivering these changes and this is recognised in the *Transforming Tayside* documentation.

161. Transforming Tayside highlights the board's commitment to engaging with stakeholders at the beginning of the change and redesign programmes and some engagement has already taken place for some of the early plans. Stakeholder engagement was also achieved through engagement sessions in 2018/19, which informed the development of *Transforming Tayside*.

162. The board has since developed a Stakeholder Engagement and Communications Strategy and Action Plan which was approved by the Board on 23 May 2019. The strategy aims to “*deliver a planned and sustained approach to communications and engagement that will enable effective stakeholder involvement in Transforming Tayside, support the delivery of priorities for 2019-22, underpin decision-making processes and protect and enhance the reputation of health and care services in Tayside.*”

163. Transforming Tayside has identified a number of groups and partnerships to ensure redesign is carried out in partnership with stakeholders:

- stakeholder engagement group (reporting to the Clinical Design Authority)
- stakeholder advisory working group consisting of public partners, patient groups and carers, third sector, Scottish Health Council and staff
- public partner groups comprising members of the public
- NHS Tayside stakeholders network (a virtual network of key stakeholders)
- Transforming Tayside Partnership Group (staffside group)
- elected members group (briefings to local politicians)

164. We have concluded that the strategy is a key element of achieving effective stakeholder engagement and we will monitor progress with the implementation of the strategy as part of our 2019/20 audit.

Leadership and culture

165. The board has identified developing capability and capacity as one of the key elements of their *Transforming Tayside* approach and considers this as key to

delivering a culture that impacts positively on the quality of care, outcomes, safety and organisational effectiveness. It sees the organisation's leadership approach as a strong influencer of culture.

166. In October 2018, the Board approved the 'NHS Tayside Collective Leadership and Cultural Strategic Framework 2018-23' (the leadership framework). The paper set out four principles of leadership and included actions for the first year with progress measures and resource commitments built into each action. The framework will develop over time but year one actions include areas such as the 'values-based employment journey', wellbeing, talent management and development strategy, development tools, coaching and mentoring etc. Management believe that the implantation of the framework will improve the organisation's culture over time.

167. We were also advised that an implementation plan had been developed for the new Leadership Programme for which the Staff Governance Committee would provide scrutiny and report progress to the Board at regular intervals. We could find no evidence of scrutiny and reporting by the Staff Governance Committee.



Recommendation 8

Progress with the new leadership programme should be reported to the Staff Governance Committee as planned.

168. Following the approval of the leadership framework, the Chief Executive presented a revised leadership/management structure for the board. Details of the revised structure is included at appendix 3. The revisions impact on the membership of the Executive Leadership Team (ELT).

169. Appointments to the new leadership/management structure will be critical going forward. A number of key posts are currently vacant, including the Deputy Chief Executive, the Director of Facilities, the Director of Nursing and the Medical Director. The board is working on filling these roles.



Recommendation 9

Appointments should be made to the revised leadership/management structure as soon as practicable.

170. The board has taken positive steps to improve leadership within the organisation. We will monitor progress with the implementation of the leadership framework and the associated actions as part of our 2019/20 audit.

Internal audit

171. The board's internal audit function is carried out by FTF Audit and Management Services (FTF). Each year we review 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 we can rely on the work of internal audit work and avoid duplication of effort. When we plan to place reliance on internal audit work, our assessment of the internal audit function aims to ensure that it is sufficient in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

172. A formal external quality assessment of internal audit was carried out by the Chartered Institute of Internal Auditors (IIA) in 2018, in line with the requirements of the PSIAS. The IIA concluded that FTF generally conforms to the majority of the

IIA's professional standards but highlighted some scope for improvement and development. An action plan was included in the report with improvement actions including:

- clearer alignment of the internal audit plan with the board's strategic risks
- shortening of the audit process from assignment start to reporting
- a quality assurance and improvement programme supplemented with enhance key performance indicators
- a sharper format and structure of reporting
- a revised internal audit recommendation follow up process.

173. The IIA report was submitted to management in June 2018 and was presented to the Audit and Risk Committee in December 2018. Action is monitored by the Audit and Risk Committee through the recommendation tracker. As at May 2019 work on implementing the improvements is ongoing.

174. On 10 May 2019, the Chief Internal Auditor presented a report to the Audit and Risk Committee on progress with the 2018/19 Internal Audit Plan. The report reflected on continued slippage against the plan. Previous issues relating to pressure on management and staff to engage with and respond to queries and internal audit staff shortages had been addressed but the slippage was now due to "the unusually high number of C- and D grade audits issued during the year". Key outputs that were outstanding as at 9 May 2019 included:

- three-year transformation programme (not commenced)
- improvement, innovation and operational planning (not commenced)
- health and social care integration (commenced)
- information governance and eHealth (commenced)
- endowment fund - operational aspects and governance arrangements (commenced).

175. With the slippage, priority was given to audit work which provided assurances for the Corporate Governance Statement. As a result, the Chief Internal Auditor was able to conclude in his annual report in June 2019 that "the Board has adequate and effective internal controls in place" and that "the Accountable Officer has implemented a governance framework in line with required guidance sufficient to discharge the responsibilities of this role".

176. The carry forward of uncompleted audits from the prior year plan has been a significant factor in the internal audit plan slippage for a number of years and therefore FTF has reviewed its approach to reassess the need for carry forward. This has resulted in audits not yet started at the year end being risk assessed for inclusion in the following year and time being built into the 2019/20 internal audit plan to allow any 2018/19 audits already progressing to be completed. This should enable FTF to establish realistic and achievable annual plans going forward.

177. The internal audit plan for 2019/20 was initially scheduled to be presented to the Audit and Risk Committee in May 2019 but this has been re-scheduled for June 2019. The delay is in part due to the board's strategic risk register, on which internal audit's risk assessment is based, is not yet updated.

178. During 2018/19, the process for following up internal audit recommendations has changed, in response to evidence that agreed recommendations were not being implemented by agreed timescales. Internal audit has taken over responsibility for this area from the finance directorate and have developed a new

process and reporting mechanism to the Audit and Risk Committee. This has resulted in a more robust follow up process.

179. Following our assessment of internal audit, which included a review of internal audit plans, we planned not to place formal reliance on FTF work to support our financial statements audit opinion this year. We did use the work of internal audit in selected areas in respect of our wider dimension audit responsibilities. This work has informed our views on the wider dimension risks identified in this report.

National Fraud Initiative

180. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

181. NFI activity is summarised in [Exhibit 10](#).

Exhibit 10

NFI activity



224

Matches



178

**Recommended
for investigation**



0

**Completed/closed
investigations**

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

182. The results of NFI activity are regularly reported to the Audit and Risk Committee. The board's investigations into the matches is ongoing and an update on the results will be presented to the Audit and Risk Committee later in the year

183. We have concluded that the board is pro-active in investigating matches and reporting the outcomes of NFI activity.

Standards of conduct for prevention and detection of fraud and error

184. The board has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

185. We concluded that the board has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention

Health and social care

186. There are three Integration Joint Boards (IJBs) within NHS Tayside's catchment area which have now been operational for two years. These IJBs are commonly known as Angus Health & Social Care Partnership, Dundee Health & Social Care Partnership and Perth & Kinross Health & Social Care Partnership.

187. The board received the relevant financial information it needed for its financial statements from the IJBs by 17 May 2019. As previously agreed, the board's draft 2018/19 financial statements had already been passed to audit, therefore the board had to update the draft financial statements to incorporate the IJBs financial results to allow the consolidated financial statements to be audited.

188. Each IJB has its own performance management framework to ensure that progress against key plans, strategies and budgets are monitored routinely in order that timely action can be taken to address any performance issues. Progress is monitored by the IJB's senior management and respective scrutiny committees.

189. The IJBs face financial challenges in the future as well as the service delivery challenges from the new landscape. In November 2018 Audit Scotland published [Health and Social Care Integration: Update on Progress](#), which identified that, while some improvements have been made to the delivery of health and social care services, IJBs, councils and health boards need to show a stronger commitment to collaborative working to achieve the real long term benefits of an integrated system. The report was presented for noting at the Audit and Risk Committee meeting on 28 March 2019, but no further action on the report was taken at that time.

190. The board and its partners are developing new ways of working that promote integration across Tayside e.g. shared decision making by NHS Tayside, the IJBs, the Scottish Ambulance Service and other key stakeholders enhanced the patient experience over the winter period. A whole system approach identified and implemented opportunities for alternatives to hospital admission, timely discharge and improved seven-day working over the winter. However, much work needs to be done in regard to shifting the balance of care into the community setting.

191. Regular meetings are held between the Chief Executives of the Health Board and partner Councils and Chief Officers of the IJBs to discuss the strategic direction of the IJBs.

192. A Scottish Government's Ministerial Strategic Group (MSG) for Health and Community Care has also undertaken a review of integration of health and social care and its report was published in February 2019. The review used the framework set out in the Audit Scotland's report to convey a range of proposals for local delivery of health and social care.

193. A national self-assessment tool has been developed for use in IJBs (in partnership with its partners) to determine local progress against the key themes identified in the Audit Scotland and MSG reports. The joint assessments (draft for Angus IJB) have been submitted to the Scottish Government, together with proposed improvement action plans and are scheduled for presentation to the Board in August 2019.

eHealth

194. Information governance remains a high risk on the board's corporate risk register and work in this area is ongoing.

195. During 2018 NHS Tayside undertook an external review of its eHealth service. The review focused on the board's readiness to produce a digital strategy to support transformation and on the operational delivery of eHealth systems and structures. The findings from this review indicate that the service faces significant challenges, ranging from: needing to develop a more strategic approach; needing to support the transformation programme; insufficient staff in place in key roles (in part from key members of staff retiring and not being replaced); and insufficient revenue and capital funding. Work on an action plan is ongoing and the implementation of recommendations is to be followed up by internal audit in 2019/20.

196. The Information Governance Committee's annual report to the Audit Committee in March 2019 highlighted concerns about the capacity and capability of

the eHealth department and noted that eHealth resources were being realigned to reflect the high risk environment of eHealth and the transformation agenda. The appointment to the new post of Director of Digital Services will be key to progress in this area.

197. An eHealth delivery plan update was presented to the Performance and Resources Committee in April 2019 and set out the significant scale of the eHealth programme. The delivery plan has not been aligned to the board's transformation programme at this stage.



Recommendation 10

The board should complete its action plan on the eHealth service to ensure it has the capacity and capability to support transformation and the delivery of eHealth systems and structures.

Cyber security

198. The Scottish Government issued a Public Sector Action Plan (PSAP) on Cyber Resilience in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

199. In the Information Governance Committee Annual Report, the Senior Information Risk Owner concluded that he was unable to provide the required assurances around cyber security and that the board will be more informed of its exposure within this area once additional information is available and cyber security assessments are completed.

200. A review of cyber security was carried out by an external consultant and is scheduled to be reported to the Audit and Risk Committee in September 2019. Work has also commenced with the external consultant on a Cyber Defence Strategy.

201. NHS Tayside has achieved Cyber Essentials standard for its managed network and General Practice, with further work planned on Cyber Essential assessments in radiology/LABS, radiotherapy and medical instrumentation. The intention is for all the board's networks to be assessed for the Cyber Essentials standard.

202. Much work is ongoing in relation to cyber security and we will monitor progress as part of our 2019/20 audit.

Clinical Governance

203. Clinical governance is the system through which the NHS works to monitor and improve the quality of the care and services they deliver. Health Improvement Scotland works to ensure that NHS boards have a clear and consistent approach to clinical governance in healthcare across Scotland. Audit Scotland's audit role is restricted to reporting on whether the board has governance arrangements that are appropriate and operating effectively, which includes the clinical governance arrangements.

204. Internal audit carried out a review of clinical governance in NHS Tayside and concluded that that more robust, cohesive assurances on the complex clinical governance risks are required. Internal audit recommended that their findings should be considered by the Medical Director and Nurse Director and a paper presented to the Care Governance Committee containing an action plan. Specific recommendations by internal audit included:

- consideration of Mental Health as a suitable candidate for piloting for assurance mapping process
- routine reporting of implementation of all actions from external reviews, as well as overt consideration of whether the issues had been identified through internal clinical and care governance systems
- consideration of including prisoner healthcare in the performance review system
- inclusion of Public Health in the revised schedule of performance reviews.

205. Management agreed that the Medical Director and Nurse Director would consider the audit recommendations and report their response and the development of any proposed actions to the Care Governance Committee by the end of April 2019. A report was subsequently presented to the Care Governance Committee on 8 May 2019 (the April 2019 having been postponed), acknowledging the recommendations and need for action. The development of the action plan is ongoing.

206. Internal audit also reported that agreement had been reached with the IJBs for an assurance template to be produced as part of the development of clinical care governance in the IJBs and that a revised framework would be considered by the Clinical Care Governance Committee by the end of the 2018/19 committee year. A new template has been developed but management acknowledge that greater levels of evidence is required to provide confidence about outcomes being achieved within the partnerships.

207. Following allegations that a former Head of Neurosurgery at NHS Tayside harmed patients for years, and systems were not operating effectively to pick up his mistakes, the Cabinet Secretary for Health and Sport wrote to all chairs and chief executives of health boards in Scotland on 5 September 2018 to:

- seek assurance on the mechanisms in place for reviewing complaints of professional practice
- ask how they are assured of the safety and quality of the surgical practices of its employees.

208. NHS Tayside's responded, noting a number of areas where improvements were planned including:

- a regular meeting has been put in place, in which consultants who are a potential concern are discussed by Human Resources and the Medical Director (Responsible Officer)
- the board is reviewing the role of the Responsible Officer, the frequency of meetings and NHS Tayside's relationship with the General Medical Council. The Consultant Professional Governance framework and the establishment of a more automatic triggering of the review process is to be strengthened. A lead consultant has been identified and allocated to work with key stakeholders to identify any clinician of possible concern
- NHS Tayside has commissioned one of its lead consultants to review the systems and processes to support the Responsible Officer
- NHS Tayside is refreshing its performance review framework including how morbidity and mortality reviews are conducted and supported at service level.

209. We have concluded that the board has adequate clinical governance arrangements in place, but improvements are required to improve the effectiveness of those arrangements.

Mental Health Services Inquiry

210. Following concerns raised over mental health services at the Carseview Centre in Ninewells Hospital, in May 2018 the board's then Chairman and Chief Executive announced an independent inquiry into the psychiatric unit. A revised management team was also put in place to strengthen leadership over mental health services.

211. Following debate at the Scottish Parliament, the inquiry was widened to cover mental health services across all of Tayside. The wider inquiry includes a review of how NHS Tayside is implementing the recommendations from the Health Improvement Scotland and Mental Welfare Commission inspection reports.

212. An interim report was received by the board in May 2019. The interim report will be presented to the Board at its next meeting in June, with a final report planned for later in 2019.

Part 5

Value for money



Main judgements

NHS Tayside performance against the performance standards is mixed but for the majority of standards the board failed to meet the national targets. The board continues to seek ways to balance the achievement of its financial targets with other national performance targets.

The performance management framework is being developed to provide links to national improvement plans, financial plans and *Transforming Tayside* and to improve the tracking of performance improvement actions.

NHS Tayside did not carry out an assessment of its Best Value arrangements for 2018/19.

Best Value (BV)

213. *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 BV and, explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

214. We reported in our 2017/18 Annual Audit Report that the Audit Committee had been advised that evidence available in that year would not be sufficient to complete a robust assessment against the BV characteristics and that there were opportunities along with the outcome of the risk review of corporate governance in NHS Tayside to review the use of the BV Framework. This review was to be undertaken in 2018/19.

215. The board subsequently decided not to carry out a separate assessment of BV for 2018/19, as the self assessment of governance arrangements was being carried out. Although Internal audit has agreed with this approach, stating that the self-assessment includes many aspects of BV, in our opinion this does not provide explicit and comprehensive assurance on the board's BV responsibilities. In our opinion a formal BV assurance framework and assessment should be put in place for 2019/20.

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



Recommendation 11

A formal review of the BV assurance framework, and an assessment of the board's BV arrangements should be completed in 2019/20.

Performance management

216. From 2018/19 boards were required to produce Annual Operational Plans (AOPs) which replaced Local Delivery Plans (LDPs). AOPs contain the eight key performance targets identified by the Scottish Government. LDPs comprised some 21 standards, while the 2018/19 AOP contains only 8 targets (7 of which were LDP standards). These targets include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee. There has been no indication from the Scottish Government that those previous LDP standards that are not continued into AOPs are in any way diminished in terms of importance, nor that they should no longer be reported to NHS Boards

217. *Transforming Tayside* sets out the board's key performance measures under its strategic aims of Better Care; Better Health; Better Workplace and Better Value. The Better Care and Better Health indicators are the former national operational LDP Standards and the Better Value indicators are the national financial indicators (RRL and CRL). The Better Workplace indicators are internal indicators relating to engagement through iMatters, statutory and mandatory training, appraisals and performance development plans and sickness absence.

218. The Board is kept well informed of performance across all areas. The detailed review and scrutiny of performance has been delegated to the Performance and Resources Committee which meets regularly. Each meeting of the Performance and Resources Committee receives a key metrics report which contains performance information on a variety of key indicators (including the previous LDP Standards), with performance trends and comparisons with other Health Boards.

219. In 2018, the General Manager Public Health was redeployed into an Assistant Chief Executive role with responsibility for Systems Performance Management, supported by the Business Unit. This role is to support the development of the performance management arrangements in NHS Tayside.

220. Internal audit submitted a report to management on their review of Organisational Performance Reporting in June 2019 in which they reported that Performance and Resources Committee members had attended a session presented by the Business Unit Manager in February 2019 which provided an overview of how data is collected, used and shared by the organisation. Internal audit recommended that the committee members be invited to participate in a second workshop to review the current performance framework and the links with national improvement plans, financial plans and *Transforming Tayside*.

221. The board is also developing a performance tracker to ensure actions are captured and tracked through to completion. The tracker will be based on the final AOP objectives and is to be embedded within the AOP.

222. The development of the framework to provide the links referred to at paragraph 220 and to track performance improvement actions would further enhance the performance framework.

Performance reporting

223. In their report on Organisational Performance Reporting, Internal audit assessed the system as broadly satisfactory with only minor weaknesses present. They reported that performance reporting arrangements have been significantly improved during 2018/19 with the format of the key metrics performance reports being updated to include a balanced scorecard. The key metrics report focuses on exception reporting where measures have been highlighted as not on track, along with planned key improvement actions and provides better explanation of the data.

224. Internal audit also reported that further enhancements could be made to ensure that:

- there is sufficient focus on actions to address poor performance with explanations provided for all targets not currently on track
- the performance reporting framework provides an early warning system to identify standards and targets that may not be met
- trajectories and trend analysis is used to quantify and explain where targets are not being met
- the framework clearly identifies where action taken has not been effective, where there are barriers to achievement, identifies potential solutions and assesses the impact of previous actions.

225. We reported in our 2017/18 Annual Audit Report that the board's performance information is not accumulated and readily available on the NHS Tayside website. Some high level performance information is now on the front page of the website but this is not comprehensive, and the board intends to review public access to performance information through wider social media platforms.

Overview of service performance

226. As noted at paragraph 217, *Transforming Tayside* sets out the board's key performance measures under its strategic aims of Better Care; Better Health; Better Workplace and Better Value. The Better Care and Better Health indicators are the 8 AOP targets and 11 other former national Local Delivery Plan (LDP) standards. These targets and standards are reported in the key metrics report.

227. NHS Tayside's performance against these indicators for 2018/19, based on the most recent available information is summarised in [Exhibit 11](#).

Exhibit 11

Overall performance against key indicators



Source: Annual Report and Accounts




228. NHS Tayside performance against the performance standards is mixed but for the majority of standards the board failed to meet the national targets.

229. NHS Tayside has performed well in 6 of the 19 indicators for 2018/19 including percentage of IVF patients seen within 12 months at 100% (target 100%), percentage of drug and alcohol clients treated within 3 weeks at 95.9% (target: 90%) and percentage of patients who received a consultation with a GP or appropriate healthcare professional within 48 hours at 94.4% (Target: 90%). Performance that fails to meet the acceptable standards includes the performance

measures in [exhibit 12](#). Action that is being taken by the board in respect of these measures is also detailed in [Exhibit 12](#).

Exhibit 12

Performance against key performance targets

| Target/standard | | Performance 2018/19 ¹ | Action being taken by Board |
|---|------|---|---|
| CAMHS | 90% |  65.3% | To address the current patients waiting over 18 weeks the service is seeking to create additional capacity through recruitment for psychology nursing including reviewing alternative nursing skill mix. A vacant Consultant Psychiatrist post has been appointed to and commences in August 2019. CAMHS are currently contracting with an independent contractor to provide additional capacity for an initial period of 3 months. This is planned to commence in July/August once the relevant Service Level Agreements, Risk Management and Clinical Governance documents have been agreed and signed off. This, alongside redesign work to develop more sustainable models of service delivery, will support an improvement in performance over the next 2 years. |
| Proportion of CAMHS patients treated within 18 weeks from referral to treatment | | 17/18: 39.5% | |
| Treatment Time Guarantee (TTG) | 100% |  58.2% | Key focus for service teams is the reduction in long waits, in particular patients over 78 weeks by the end of June. Daily reporting is in place to support progress. Additional capacity within the Independent Sector has been secured for Urology, General Surgery and Orthopaedics, patients are being contacted and referrals forward to providers. Weekly waiting times huddle in place chaired by the Director of Acute Services. |
| Proportion of patients that were seen within 12 weeks | | 17/18: 63.3% | |
| New outpatients | 90% |  61.7% | As for Treatment Time Guarantee |
| Proportion of new outpatients waiting < 12 weeks target as at month end | | 17/18: 70.7% | |

Note: 1. Figures still to be validated by NHS Information Services Division. Where March 2019 data is not yet available, the most recent data is used

.Source: NHS Tayside Key Metrics Report June 2019

Top 10 Targeted Approach to Performance Improvement

230. In order to achieve improvement in performance across a variety of pressure areas within an acceptable timescale, the Chief Executive has introduced a 'Top 10 Targeted Approach to Performance Improvement'. This involves the identification of the top 10 poorest performing elements of any specific area, their review and the identification of actions to be taken to address these. Examples include the top 10 wards and departments using the greatest amount of agency/bank staff and the top

10 poorest utilised theatres. This program will also identify timescales by which improvement delivery is to be achieved and who the responsible officers are.

231. Progress on the top 10 lists will be assessed on a fortnightly basis at a specially convened Finance and Performance Meeting chaired by the Chief Executive and attended by the Executive Leadership Team.

National performance audit reports

232. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 a number of reports were published which are of direct interest to the board and are highlighted in [Appendix 4](#).

233. The board considers and reviews national reports at its Audit and Risk Committee e.g. NHS Tayside have requested that the 2019 NHS overview report be presented to the Audit and Risk Committee by the Audit Scotland team responsible for producing the report, once it is available.

Appendix 1

Action plan 2018/19



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|--|
| 1 | <p>Deferred Income – Research and Development Contracts</p> <p>Income received from research and development contracts has been incorrectly deferred in the financial statements. This should have been included as operating income.</p> <p>Risk</p> <p>The creditor position and the underspend against RRL provision within the financial statements is misstated.</p> | <p>The board should ensure that research and development contract income is correctly disclosed in the 2019/20 financial statements.</p> <p>Exhibit 3</p> | <p>We will keep under review the accounting treatment of research and development income. In terms of the accounting treatment for the 2018/19 accounts this was reviewed and the treatment agreed by the Director of Finance and Deputy Director of Finance.</p> <p>Responsible officer: Deputy Director of Finance</p> <p>Agreed date: 31 March 2020</p> |
| 2 | <p>Financial planning</p> <p>With the introduction of the Scottish Government's five-year Medium-Term Financial Strategy (MTFS) in May 2018, there is an opportunity to look beyond the three-year cycle to a 5-10 year financial planning cycle, reflecting the corporate priorities and transformation programme within <i>Transforming Tayside</i> and incorporating scenario planning and financial modelling.</p> <p>Risk</p> <p>The board may not plan adequately to respond to the significant financial risks over the medium to long term.</p> | <p>The board should develop a more detailed medium to long term financial plan from 2020/21 that reflects the board's clinical strategy and the transformation programme. The plan should incorporate scenario planning and modelling (e.g. the impact of EU withdrawal)</p> <p>Page 24</p> | <p>The Board approved a three year finance plan in April and Transforming Tayside programme in May. The development of more detailed actions to support the savings required from Transforming Tayside will be taken forward during 2019/20.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 31 December 2019</p> |
| 3 | <p>Transformation and efficiency savings</p> <p>The focus of the projected savings shifts over the course of the 2019-22 financial plan, with a move from productivity gains to savings arising from</p> | <p>The board should ensure that robust, risk-assessed savings plans are developed identifying the recurrent level of savings and how the total 2019/20 savings will be achieved.</p> <p>Review of IJB financial plans to ensure services are sustainable should be</p> | <p>The plans for 2019/20 will be kept under review to ensure that they remain robust and risk-assessed savings plans and increase the level recurrent level of savings achieved.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|--|
| | <p>the Transforming Tayside programme.</p> <p>Much work has yet to be done to formalise the Transforming Tayside savings proposals and business cases are to be considered by the Board throughout 2019/20.</p> <p>Risk</p> <p>The board may not be able to deliver the targeted savings.</p> | <p>considered as part of savings plans.</p> <p>Page 26</p> | <p>Responsible officer: Director of Finance</p> <p>Agreed date: 31 December 2019</p> |
| 4 | <p>Asset management</p> <p>NHS Tayside does not yet have a comprehensive or complete understanding of its asset base and consequently, it does not have comprehensive estimates of the costs to maintain or develop its asset base, aligned to its clinical strategy. Officers advised the Performance and Resources Committee in November 2018 that work had commenced to address this.</p> <p>The Property Asset Management System is under review and will see a shift to a Regional Asset Management Plan (RAMP) covering all NHS Boards in the North region. The RAMP will be presented to the NHS Tayside Board on a future date.</p> <p>Risk</p> <p>The board may not have the appropriate infrastructure in place to deliver its clinical objectives.</p> | <p>NHS Tayside should conclude its review of the asset management plan as soon as practicable and report its findings to the Board. The report should include details of how the asset base are aligned to the clinical strategy and the financial plan.</p> <p>Page 28</p> | <p>The Regional Asset Management Plan will be presented to the Board for approval in December 2019.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 31 December 2019</p> |
| 5 | <p>EU withdrawal</p> <p>NHS Tayside has been making plans during 2018/19 to address the risks associated with EU withdrawal. As part of this the board has been updating its Business Continuity Plans and as of May 2019, 91 out of 114 plans had been updated.</p> | <p>The board should complete its update of Business Continuity Plans in light of EU withdrawal. It should also report on the preparations underway for EU withdrawal to the board.</p> <p>Page 31</p> | <p>The board will complete its update of Business Continuity Plans in light of EU withdrawal and report on the preparations underway for EU withdrawal to the board</p> <p>Responsible officer: Deputy Chief Executive</p> <p>Agreed date: 30 September 2019</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|---|--|
| | <p>There has been no reporting to the Board on preparations for EU withdrawal.</p> <p>Risk</p> <p>Board members may not be sufficiently sighted on preparations for EU withdrawal to scrutinise decisions made.</p> | | : |
| 6 | <p>Holding to account - committee governance arrangements: Member training</p> <p>All Board Members have received induction training and we were advised that further training was planned for 2018/19. This training has not yet been delivered.</p> <p>Risk</p> <p>Members may not be sufficiently supported to carry out their role of scrutinising and holding to account.</p> | <p>The board should complete its review of Board Member training and development and develop training needs analyses and personal development plans, linked to the Board's corporate objectives as soon as practicable. Progress with the new leadership programme should also be reported to the Staff Governance Committee as planned.</p> <p>Page 36</p> | <p>This will be progressed during 2019/20 and progress reported to the Staff Governance Committee</p> <p>Responsible officer: HR Director</p> <p>Agreed date: 31 December 2019</p> |
| 7 | <p>Remuneration report disclosures</p> <p>The remuneration report should include senior employees' remuneration (including advisory and non-executive members). Although not board members, we believe that appropriate senior officers e.g. Deputy Chief Executive and IJB Chief Officers who may have the power to influence the decisions of the entity (in an advisory capacity) should be included.</p> <p>Risk</p> <p>NHS Tayside is not making appropriate and transparent disclosures.</p> | <p>The board should review the disclosures in the remuneration report for 2019/20 and consider the status of the senior officers, such as those we have identified.</p> <p>Page 37</p> | <p>The remuneration statement disclosures were considered for the 2018/19 accounts and considered to represent those who have significant influence over decisions. This took account of the fact that the Board have been at Level 4 and 5 on the escalation scale during this period. We will review the disclosures again in 2019/20.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 31 March 2020</p> |
| 8 | <p>Leadership and culture</p> <p>An implementation plan has been developed for the new Leadership Programme. The Staff Governance Committee was tasked with providing</p> | <p>Progress with the new leadership programme should be reported to the Staff Governance Committee as planned.</p> <p>Page 40</p> | <p>This will be progressed during 2019/20 and progress reported to the Staff Governance Committee</p> <p>Responsible officer: HR Director</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|--|--|
| | <p>scrutiny and report progress to the Board at regular intervals. We could find no evidence of scrutiny and reporting by the Staff Governance Committee.</p> <p>Risk</p> <p>There may be no effective oversight of the leadership programme and opportunity's for members to influence its direction may be lost.</p> | | <p>Agreed date: 31 December 2019</p> |
| 9 | <p>Leadership and culture</p> <p>Following his appointment in January 2019, the Chief Executive presented a revised leadership/management structure for the board. The changes also brought about a revision of the Executive Leadership Team.</p> <p>Appointments to the new leadership structure will be critical going forward. A number of key posts are currently vacant with further vacancies on the horizon as a result of upcoming retirements. In addition, some of the posts are experiencing long term sickness.</p> <p>Risk</p> <p>Without a stable and effective leadership team in place it would be challenging to deliver the board's objectives.</p> | <p>Appointments should be made to the revised leadership/management structure as soon as practicable to ensure there is adequate leadership and direction going forward.</p> <p>Page 40</p> | <p>The implementation of the new management structure is being progressed and we expect to appoint to the new posts during 2019/20.</p> <p>Responsible officer: HR Director</p> <p>Agreed date: 31 March 2020</p> |
| 10 | <p>eHealth</p> <p>An external review of the board's eHealth service found that the service faces significant challenges and recommended an action plan be prepared to address the key findings. Work on an action plan is ongoing.</p> <p>In addition, an eHealth delivery plan update was presented to the Performance and Resources Committee in April 2019 and set out the significant scale of the eHealth programme. The delivery plan</p> | <p>The board should complete its action plan on the eHealth service to ensure it has the capacity and capability to support transformation and the delivery of eHealth systems and structures. The action plan should include an assessment of the eHealth delivery plan to ensure that investment is appropriately targeted to ensure that it is well aligned with Transforming Tayside.</p> <p>Page 44</p> | <p>An eHealth Delivery Plan is being developed and will be presented for review and approval in line with Transforming Tayside.</p> <p>Responsible officer: Director of eHealth</p> <p>Agreed date: 31 December 2019</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|---|--|
| | has not been aligned to the board's transformation programme. | | |
| 11 | <p>Best Value (BV)</p> <p>NHS Tayside did not carry out a review of its BV arrangements for 2018/19. It was considered that the review of governance arrangements covered this. In our opinion this does not provide explicit and comprehensive assurance on the BV arrangements.</p> <p>Risk</p> <p>The board cannot demonstrate it is delivering on its BV responsibilities.</p> | <p>A formal review of the BV framework should be carried out in 2019/20.</p> <p>Page 47</p> | <p>A review of the BV framework will be carried out in 2019/20</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 31 March 2020</p> |

Follow up of prior year recommendations

| | | | |
|-------|--|--|--|
| b/f 1 | <p>Submission of annual report and accounts for audit</p> <p>Much of the Annual Report part of the document e.g. Performance Report, Accountability Report and Governance Statement, were not fully available until late in the audit process. In addition, IJB results were not available for consolidation into the Group Accounts until 1 June 2018. This hindered the audit process.</p> <p>Risk</p> <p>The 2018/19 annual report and accounts may not be audited by the statutory deadline of 30 June 2019.</p> | <p>The board should review its process for preparing the draft annual report and accounts in 2018/19 to ensure a full version is available earlier in the audit process.</p> | <p>Updated response: The Annual Report and Accounts were received in stages, by the agreed dates. There were some gaps in the information provided which impacted on the audit process.</p> <p>Revised action: further discussions between external audit and finance officers will be held in 2019/20 to seek further improvement in the financial statements process.</p> <p>Responsible officer: Deputy Director of Finance</p> <p>Revised date: 31 August 2019</p> |
| b/f 2 | <p>Tayside Health Endowment Fund</p> <p>NHS Tayside's Board met to discuss a proposal for a repayment to be made to the endowment fund to cover funds used by NHS Tayside in 2013/14 and 2014/15.</p> <p>The Board meeting scheduled for 28 June 2018 will consider</p> | <p>Before approval of the repayment to Tayside Health Endowment Fund, Board members should satisfy themselves on the specific statutory references that the board has used to support the transfer of board funds to the endowment fund.</p> | <p>Updated response: appropriate assurances were received. Action is complete</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-------|--|---|---|
| | <p>the approval of the repayment of the £3.6 million (quantified in Grant Thornton's report on financial governance). Board members should seek assurances on their legal power before approving the repayment.</p> <p>Risk</p> <p>Board members will be exposed to legal action if appropriate assurances are not provided on the legality of the repayment to the endowment fund.</p> | | |
| b/f 3 | <p>Financial capacity</p> <p>Pressure on finance officers has intensified in 2017/18 with the departure of the Director of Finance, the need to embed the changes to the finance structure put in place before his departure, as well as the need to provide financial support for the transformation programme alongside delivery of the ongoing finance function duties.</p> <p>The filling of the vacant Director of Finance role and ongoing review of the finance structure will be essential to ensuring that the board has sufficient financial capacity to support the delivery of the board's objectives.</p> <p>Risk</p> <p>The board may not have sufficient financial capacity to support the transformation programme as well as the ongoing, routine financial activities.</p> | <p>The board should closely monitor the arrangements within the finance directorate to ensure appropriate financial capacity is in place to carry out its day to day functions and provide support for the transformation programme in a timely manner.</p> | <p>Updated response: Since December, a redesign of the management accounting function and support to the three Integration Joint Boards has been undertaken and is in the process of being implemented.</p> <p>Following a review of the Executive Leadership Team by the incoming Chief Executive the role of the Director of Finance has been reviewed and discussions are ongoing with the Chair and Chief Executive regarding how the new role profile will be taken forward.</p> <p>Responsible officer: Chief Executive</p> <p>Revised date: 31 July 2019</p> |
| b/f 4 | <p>Efficiency savings/reliance on non-recurring savings</p> <p>The board's financial plan forecasts that cash efficiency savings of £48.1 million (6.5% of baseline funding) will be required for 2018/19 (this excludes the proposed</p> | <p>The board should ensure that savings plans are urgently developed which detail the delivery of the full 2018/19 savings requirement and how the higher risk element will be delivered. Detailed plans showing how future years' savings requirements will be</p> | <p>Updated response: A three year financial plan 2019-22 has been approved which includes a high-level projection of savings requirement. Work in this area is ongoing and this has been carried forward to action plan point 3 above.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-------|--|---|---|
| | <p>endowment fund repayment of £3.6 million). £26.5 million of the £48.1 million of savings has been identified, with £14.7 million being assessed as higher risk. The source of the remaining £21.6 million of savings has yet to be identified. Only a small proportion of the savings required have been identified as recurring.</p> <p>Risk</p> <p>The board may not be able to deliver the targeted savings in 2018/19.</p> | <p>achieved should also be prepared. Going forward the board should aim to identify more savings of a recurring nature as these savings would be of ongoing benefit to the financial position.</p> | |
| b/f 5 | <p>EU withdrawal</p> <p>The medium to longer term financial position is difficult to predict given the uncertainty around EU withdrawal and new financial powers. The board needs to do more to plan for these events including scenario planning or modelling.</p> <p>Risk</p> <p>The board may not plan adequately to respond to the significant financial risks presented by EU withdrawal..</p> | <p>The board should develop a medium to long term financial plan from 2019/20 and ensure that this plan includes scenario planning or modelling (e.g. impact of EU withdrawal).</p> | <p>Updated response: the board has approved a financial plan for the period 2019-22. The plan is high level and doesn't include scenario planning or modelling. Nor does it cover the longer term financial position. EU withdrawal has not specifically been factored into the financial plan. Medium to long term financial planning has been carried forward to action plan point 5 above.</p> |
| b/f 6 | <p>Integrated joint boards</p> <p>Internal audit previously reported on 'inadequate' arrangements relevant to the IJBs' governance arising from a lack of clarity of the impact of Health and Social Care Integration (HSCI) on the accountability structures in place and a number of elements of the Integration Schemes and risk management systems. Action in addressing this issue has been slow.</p> <p>Risk</p> <p>Risks in relation to IJB related activities may not be fully</p> | <p>The board should ensure that Internal Audit's recommendation in relation to risks arising from IJB related responsibilities is fully implemented and that the respective board and IJB responsibilities are agreed and incorporated into the BAF framework as a matter of urgency.</p> | <p>Updated response: the board has put in place a two year risk management improvement plan. This includes the board's contribution to a review of the HSCI risk management policy and strategy. We will to monitor implementation of the risk management plan over the remainder of our audit appointment.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-------|---|--|---|
| | understood and managed putting patient care at risk. | | |
| b/f 7 | <p>2020 Vision</p> <p>NHS Tayside does not yet have an overarching integrated clinical strategy, which clearly articulates and prioritises its clinical aims. Work is ongoing in this area and the board aim to have an integrated clinical strategy in place by December 2018.</p> <p>Risk</p> <p>Until the board puts an integrated clinical strategy in place, there is a significant risk that any transformation programme will not deliver the right change, at the right time.</p> | <p>An overarching integrated clinical strategy should be developed as soon as possible and should be approved by the Board. This should form the basis for the board's service and financial planning.</p> | <p>Updated response: the board's clinical strategy (<i>Transforming Tayside</i>) was approved by the Board in May 2019. Action is complete.</p> |
| b/f 8 | <p>Public Performance Reporting</p> <p>The board's performance information is not accumulated and made readily available on the NHS Tayside website. In our experience other organisations have developed a performance page within their website for local residents to obtain ready access to performance information.</p> <p>Risk</p> <p>Local residents do not have access to composite performance information.</p> | <p>The board should consider its arrangements for public performance reporting, including developing a performance page that local residents can access on the board's website. The performance page should be well sign posted.</p> | <p>Updated response: Management advised that the board intends to review its public performance reporting and engagement with the public on performance information in 2019/20. We will monitor progress.</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> | <ul style="list-style-type: none"> • Tested of journal entries. • Reviewed accounting estimates. • Focused testing of accruals and prepayments. • Evaluated significant transactions that are outside the normal course of business. • Substantively tested transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year. | <p>Testing of journal entries, accruals and prepayments was completed. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p> |
| <p>2 Risk of fraud over income</p> <p>NHS Tayside receives a significant amount of income from several sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p> | <ul style="list-style-type: none"> • Carried out analytical procedures on income streams. • Tested revenue transactions focusing on the areas of greatest risk. | <p>No frauds were identified in our analytical review or detailed testing of income streams.</p> |
| <p>3 Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). NHS Tayside incurs significant expenditure, including expenditure on family</p> | <ul style="list-style-type: none"> • Walked through controls over family health service expenditure. • Tested revenue transactions focusing on the areas of greatest risk. • Undertook work on the National Fraud Initiative matches. • Obtained assurances from the Counter Fraud Service reports | <p>No significant issues were identified from our testing of the family health services expenditure disclosed in the financial statements.</p> <p>We concluded that the board is proactive in following up NFI matches.</p> <p>The Fraud Liaison Officer provides an update to each Audit Committee meeting in relation to the work of the Counter Fraud Services in relation to the board and no</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| health services, which require audit coverage. | | significant issues have been highlighted. |
| <p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p> | <ul style="list-style-type: none"> Completed 'review of the work of an expert' for the professional valuer. Reviewed information provided by the Office of National Statistics, HM Treasury, the Scottish Public Pension Agency and the Central Legal Office. Testing of assets and provisions. | <p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts. No issues were identified from this review.</p> <p>We reviewed the CLO information and performed testing of provisions. We identified an error in the calculation of the CNORIS provisions which is reported at exhibit 3 of this report. Other than this no issues were identified.</p> |
| <p>5 Going concern</p> <p>NHS Tayside continues to face significant financial challenges and has required brokerage from the Scottish Government since 2012/13. NHS Tayside's 2018/19 financial projections indicate it could need as much as £22.5 million brokerage in 2018/19.</p> <p>NHS Tayside's annual report and accounts are prepared on a going concern basis, based on Scottish Government's ongoing funding commitment to the board.</p> <p>There is a risk that NHS Tayside may be unable to contain its net expenditure going forward and that the Scottish Government will be unwilling to provide further brokerage. This creates uncertainty that the board will remain as a going concern.</p> | <ul style="list-style-type: none"> Reviewed the board's assurances to support a going concern assumption for the preparation of the annual report and accounts. Reviewed the funding assurances to the board from the Scottish Government. | <p>We obtained information from management which supported the going concern assumption. We concluded from our work that the going concern basis is appropriate. This is reported at paragraph 27 of this report.</p> |
| <p>6 Submission of annual report and accounts for audit</p> <p>Much of the annual report part of the 2017/18 draft annual report and accounts i.e. the Performance Report; Accountability Report; and Governance Statement, were not fully available by the agreed dates. In addition, IJB results were not available to NHS Tayside for consolidation into the Group Accounts until 1</p> | <ul style="list-style-type: none"> Met with finance officers throughout the year to agree the timetable for receipt of the unaudited annual report and accounts and working papers to ensure statutory audit deadline is met | <p>Agreed timetable was generally met. However some gaps remained in the information contained in the annual report and accounts sections provided by the due dates which hindered the audit process. We have agreed with management that we will revisit this area for 2019/20.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|--|
| <p>June 2018. Consequently, the audit process was delayed.</p> <p>There is a risk that the 2018/19 annual report and accounts may not be audited by the statutory deadline of 30 June 2019.</p> | | |
| <p>7 Governance statement</p> <p>The Chief Executive reported in the 2017/18 Governance Statement that he was “not able to conclude, taking into account the governance framework and the assurances and evidence received from the Board’s committees, that corporate governance was operating effectively throughout the financial year ended 31 March 2018.”</p> <p>There is a risk that the 2018/19 governance framework will not provide the assurances needed by the new Chief Executive to conclude positively on NHS Tayside’s governance arrangements in place for 2018/19.</p> | <ul style="list-style-type: none"> • Reviewed the outcome of the assessment against the NHS Scotland Governance Blueprint. • Reviewed the 2018/19 Governance Statement, including the assurances provided to the Chief Executive and the supporting evidence for the Governance Statement. • Considered compliance with the Audit Scotland governance guidance note on openness and transparency. • Reviewed internal audit report T06-19: annual internal audit. • Reported progress with implementation of the requirements of the new Audit and Assurance Committee Handbook. | <p>We have reviewed the Governance Statement and concluded that the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that the report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.</p> |
| <p>8 Tayside Endowment Fund</p> <p>In April 2018 the Board agreed to repay £3.6 million to NHS Tayside Endowment Fund (Health Fund). Officers advised the Board in December 2018 that the payment was to be made in December 2018 via a revenue grant, under existing legislative powers and that the Scottish Government had confirmed that it had no concerns with the payment to the Health Fund.</p> <p>This is an unusual transaction which leads to a risk that it is not properly accounted for.</p> | <ul style="list-style-type: none"> • Reviewed the advice for the legislative basis for grant payment to the Health Fund. • Reviewed the Scottish Government confirmation. • Reviewed the VAT advice provided. • Considered the findings of The Office of the Scottish Charity Regulator (OSCR) formal inquiry into the use of funds by the Tayside NHS Board Endowment Fund. • Reviewed the accounting treatment of the repayment. | <p>We reviewed the advice and confirmations provided and the accounting treatment in respect of the endowment fund repayment. Other than an error in not eliminating the transaction from the group accounts as an inter-departmental balance, no errors in accounting for the transaction were identified.</p> <p>We also reviewed the outcome of the OSCR review and have reported on this at page 21.</p> |
| <p>9 Former Chief Executive departure costs</p> <p>During 2018/19 NHS Tayside signed a settlement agreement with its former Chief Executive who left the employment of NHS Tayside on 31 July 2018. Our Management Report on</p> | <ul style="list-style-type: none"> • Our management report on the departure costs was presented to the Audit Committee. • Reviewed year-end adjustments with the SPPA. | <p>We reported our findings on the chief executive’s departure to the Audit Committee in January 2019, see page 32.</p> <p>Our review of the year end adjustment and recovery</p> |

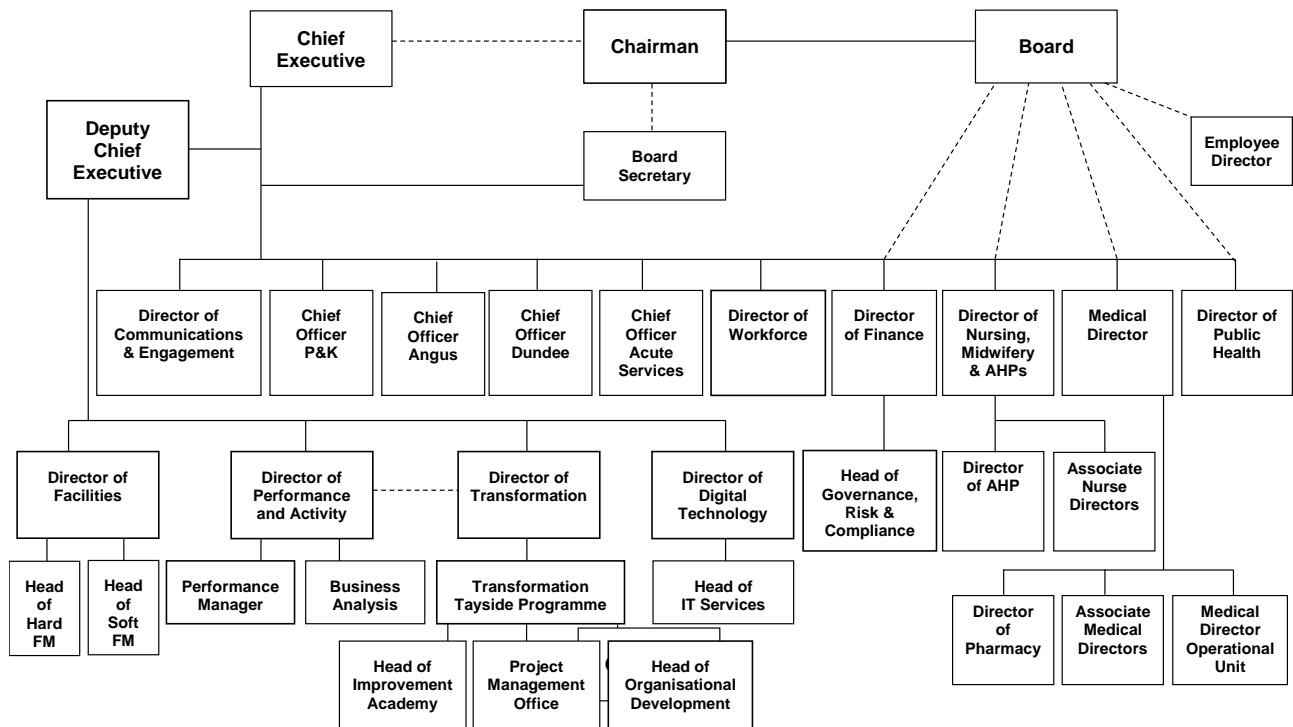
| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| <p>this issue is scheduled to be presented to the 24 January 2019 Audit Committee.</p> <p>In error, as part of the settlement £19,135 was paid to the Scottish Public Pensions Agency (SPPA). The board said that it intended to recover this amount in 2018/19, despite advice from the Central Legal Office (CLO) that this should not be reclaimed.</p> <p>There is a risk that the board is unsuccessful in its claim.</p> | <ul style="list-style-type: none"> Reported on the recovery process. | <p>process did not highlight any issues.</p> |
| <p>10 DBFM project – NHS Scotland pharmaceutical specials service hub</p> <p>During 2018/19 the construction phase of the NHS Scotland Pharmaceutical Specials Service HUB (DBFM) project is likely to be completed before the financial year end, resulting in the formal handover to NHS Tayside.</p> <p>HUB projects are accounted for in accordance with HM Treasury application of IFRIC 12, Service Concession Arrangements as detailed in the FReM.</p> <p>There is a risk that the accounting treatment is applied incorrectly which could have a material impact on the financial statements.</p> | <ul style="list-style-type: none"> Review the accounting treatment and underlying models for the NHS Scotland Pharmaceutical Specials Service HUB (DBFM). | <p>We reviewed the accounting treatment and underlying models for the DBFM. Disclosure errors were identified which have been adjusted by the board. Details are noted at Exhibit 3.</p> |

| Audit risk area | Annual Audit Report coverage |
|---|------------------------------|
| Summary of risks identified from the auditor's wider responsibility under the Code of Audit Practice | |
| 1 Leadership and governance | Page 39 |
| 2 Financial sustainability, transformation and integrated clinical strategy | Page 23 |
| 3 Financial management | Page 16 |
| 4 Financial capacity | Page 21 |
| 5 Risk management | Page 37 |
| 6 Integrated Joint Boards (IJBs) | Page 42 |

| | Audit risk area | Annual Audit Report coverage |
|----|---|-------------------------------------|
| 7 | Asset management | Page 26 |
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| 9 | eHealth | Page 43 |
| 10 | Best Value | Page 47 |
| 11 | Public performance reporting | Page 48 |
| 12 | Audit recommendations – implementation (external and internal audit) | Pages 19 and 41 |

Appendix 3

NHS Tayside Revised Leadership/Management Structure



Appendix 4

Summary of national performance reports 2018/19

| | |  2018/19 Reports | |
|---|---|--|---|
| Local government in Scotland: Challenges and performance 2018 |  | Apr | |
| Councils' use of arm's-length organisations |  | May |  Scottish Fire and Rescue Service: an update |
| Scotland's colleges 2018 |  | Jun | |
| | | Jul |  The National Fraud Initiative in Scotland 2016/17 |
| Forth Replacement Crossing |  | Aug |  Major project and procurement lessons |
| Children and young people's mental health |  | Sept |  Superfast broadband for Scotland: further progress update |
| NHS in Scotland 2018 |  | Oct | |
| Health and social care integration: update on progress |  | Nov |  Local government in Scotland: Financial overview 2017/18 |
| | | Dec | |
| | | Jan | |
| | | Feb | |
| | | Mar |  Local government in Scotland: Challenges and performance 2019 |

NHS relevant reports

[*Children and young people's mental health – September 2018*](#)

[*NHS in Scotland 2018 – October 2018*](#)

[*Health and social care integration: update on progress – November 2018*](#)

NHS Tayside

2018/19 Annual Audit Report

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