

# The State Hospitals Board for Scotland

2018/19 Annual Audit Report to the  
Board and the Auditor General for  
Scotland

June 2019





# Table of contents

---

1.	Key messages	<b>1</b>
2.	Introduction	<b>3</b>
3.	Annual report and accounts	<b>6</b>
4.	Financial sustainability	<b>12</b>
5.	Financial management	<b>16</b>
6.	Governance and transparency	<b>19</b>
7.	Value for money	<b>22</b>
8.	Appendices	<b>25</b>



# 1. Key messages

---



## Annual accounts audit

All key financial targets were met in 2018/19. The State Hospitals Board for Scotland made a saving against its revenue resource limit of £12,000 and a saving against its capital resource limit of £4,000.

The annual report and accounts were approved by the Board on 20 June 2019. Our independent auditor's report includes an unqualified opinion on the annual accounts, regularity and on other prescribed matters.

The annual accounts and supporting schedules were of a high standard. Our thanks go to staff at the Board for their assistance with our work.

## Wider scope audit

### Financial sustainability

A breakeven position is forecast for the three years commencing 2019/20. This is dependent on the realisation of a savings plan which the Board has already recognised will be challenging in the coming year due to a number of financial pressures.

The Board has appropriate arrangements in place to develop a financial framework for achieving long term financial sustainability in partnership with other national health boards.

### Financial management

The Board has adequate and effective processes in place for managing its financial position and use of resources.

The key financial systems and internal financial controls are adequate to prevent material misstatements in the annual accounts.

### Governance and transparency

Governance arrangements were found to be satisfactory and appropriate.

Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.

### Value for money

The Board has appropriate performance management processes in place that support the achievement of value for money. Progress has been made toward the achievement of 8 out of the 13 KPI measures.

Sickness absence rates and overspends on nursing overtime continue to present a significant challenge to the Board's financial position.

## Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

**Scott-Moncrieff**  
June 2019



# 2. Introduction

---

**This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the State Hospitals Board for Scotland for 2018/19.**

**We carry out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.**

**At the State Hospitals Board for Scotland, the Audit Committee has been designated as “those charged with governance”.**

---



## Introduction

1. This report summarises the findings from our 2018/19 audit of the State Hospitals Board for Scotland (“the Board”).
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee at the outset of our audit. The core elements of our work include:
  - an audit of the 2018/19 annual report and accounts and related matters;
  - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
  - monitoring the Board’s participation in the National Fraud Initiative (NFI); and
  - any other work requested by Audit Scotland.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



3. The Board is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
  4. The report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding on appropriate actions.
  5. We discussed and agreed the content of this report with the Finance and Performance Management Director. We would like to thank all management and staff for their co-operation and assistance during our audit.
- ### Confirmation of independence
6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
  7. We confirm that we have complied with the Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process was independent and our objectivity has not been compromised in any way.
  8. We set out in Appendix 1 our assessment and confirmation of independence.
- ### Adding value through the audit
9. All of our clients demand of us a positive contribution to meeting their ever-changing



business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey:  
[www.surveymonkey.co.uk/r/S2SPZBX](http://www.surveymonkey.co.uk/r/S2SPZBX)
11. This report is addressed to the Board and the Auditor General for Scotland and it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)



# 3. Annual report and accounts

---

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

**In this section we summarise the findings from our audit of the 2018/19 annual report and accounts.**

---



# Annual report and accounts

## An unqualified audit opinion on the annual report and accounts

The annual report and accounts were approved by the Board on 20 June 2019. Our independent auditor's report is unqualified. We did not identify any significant adjustments to the unaudited annual report and accounts.

The Board has good administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

### Overall conclusion

#### An unqualified audit opinion on the annual report and accounts

12. The annual report and accounts for the year ended 31 March 2019 were considered by the Audit Committee on 20 June 2019 and approved on the same date by the Board. Our independent auditor's report includes:
  - An unqualified opinion on the financial statements;
  - An unqualified opinion on regularity; and
  - An unqualified opinion on other prescribed matters.
13. We are also satisfied that there are no matters which we are required to report by exception.

#### Good administrative processes were in place

14. We received the unaudited annual report and accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to staff at the Board for their assistance with our work.
15. The annual report and accounts were submitted to the Scottish Government and Auditor General for Scotland by the 30 June 2019 deadline.

### Our assessment of risks of material misstatement

16. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.



## Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

### 1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

*Excerpt from the 2018/19 External Audit Plan*

17. We have not identified any indication of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

### 2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

*Excerpt from the 2018/19 External Audit Plan*

18. We consider that the risk of fraud in relation to revenue recognition is present in all non-government revenue streams. We evaluated each type of revenue transaction and documented our conclusions.
19. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the Board's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

### 3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 *The Audit of Public Sector Financial Statements*. This Practice Note recognises that most public sector bodies are net spending bodies and that there is an increased risk of material misstatement due to improper recognition of expenditure.

*Excerpt from the 2018/19 External Audit Plan*

20. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. Our testing confirmed that the Board's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.



## Our application of materiality

21. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
22. Our initial assessment of materiality for the financial statements was £535,000. On receipt of the 2018/19 draft financial statements, we reassessed materiality and reset it to £520,000. We consider that our updated assessment has remained appropriate throughout our audit.
23. Our assessment of materiality is set with reference to the revenue resource limit. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance.

### Performance materiality

24. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
25. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

	Area risk assessment		
	High	Medium	Low
Performance materiality	364	286	234

26. We agreed with the Audit Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of 2% overall materiality, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

## Audit differences

27. We are pleased to report that there were no material adjustments or unadjusted differences to the unaudited annual accounts. We identified some

disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

## An overview of the scope of our audit

28. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in January 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
29. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
30. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner.

## Other matters identified during our audit

31. During the course of our audit we noted the following:

### Other information in the annual report and accounts

32. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

### The performance report

33. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.
34. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.



### The accountability report

35. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), a remuneration and staff report; and a parliamentary accountability report.

### Governance statement

36. The content of the governance statement is in line with our expectations.
37. Arrangements were made to ensure the outgoing chief executive provided assurance over the 2018/19 governance arrangements to the incoming chief executive.
38. We have concluded that the governance statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.

### Remuneration and staff report

39. We have concluded that the audited part of the remuneration and staff report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers.

### Regularity

---

40. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

### Related Parties

---

41. Any related parties have been declared by both senior management and board members for 2018/19.
42. During our audit we noted that management do not currently complete a transactional review to identify transactions that have taken place throughout the year with identified related parties.
43. We would encourage the Board to review its related party procedures and ensure that a transactional review takes place at year end to identify any material transactions between the Board and the identified related parties. In this context, a transaction is material if it is material to either the Board or the related party.

*Action plan point 1*

### Qualitative aspects of accounting practices and financial reporting

44. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:



Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. Significant estimates have been made in relation to the valuation of liabilities related to the Board's membership of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These estimates have been informed by advice from qualified, independent experts. We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the expert is appropriate.
The appropriateness of the going concern assumption	We have reviewed the detailed financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.



# 4. Financial sustainability

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



The Board has appropriate arrangements in place to develop a financial framework that will inform consideration of its long term financial sustainability in partnership with other national and regional health boards.

An Annual Operational Plan is in place for 2019/20 along with a financial plan covering the three years from 2019/20. The Board has forecast a breakeven position across each of the three years. This is dependent on the realisation of a savings plan which the Board has already recognised will be challenging in the coming year due to a number of financial pressures.



## Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

### Financial sustainability

The Board has produced an annual operating plan (AOP) for 2018/19. The AOP forecasts a breakeven position based on achieving efficiency savings. During 2017/18 national boards worked together to meet a shared target of £15million efficiency savings. From 2018/19, the same £15million target will be deducted from revenue allocations on a recurring basis, with the State Hospital again expected to contribute £0.44million.

There is a risk that delivery of the Board's efficiency savings plans are at the detriment of services and/or on-going financial health.

The achievement of future financial targets will depend on continuing tight control of expenditure, delivery of a challenging savings plan and may also require some difficult decisions to be taken in areas such as workforce.

*Excerpt from the 2018/19 External Audit Plan*

45. As outlined in the Medium Term Health and Social Care Financial Framework (October 2018), from 2019/20 NHS Boards are required to deliver a financial break-even position over a three year period. The State Hospitals Board for Scotland has prepared an Annual Operational Plan for 2019/20 along with a financial plan covering the three years from 2019/20. The Board has forecast a breakeven position across each of the three years. This is dependent on the realisation of a savings plan which the Board has already recognised will be challenging in the coming year due to a number of financial pressures.
46. Our detailed findings on the Board's financial framework for achieving long term financial sustainability are set out below.

### Health and social care medium term financial framework

47. In October 2018, the Scottish Government published its Health and Social Care Medium Term Financial Framework. The Framework is supported by financial modelling and highlights the necessity for not only additional investment but continued reform of the Health and Social Care system. It is anticipated that the development of the Framework will provide NHS Boards with more information and funding assurances in order to develop longer term financial and reform plans.
48. The framework sets out a new planning and performance cycle which requires NHS Boards to deliver financial break-even over a three year period. Where this requirement is met, Boards have the flexibility to report under or overspends of up to 1% of the Boards' core revenue resource funding. The first planning period covers the years 2019/20, 2020/21 and 2021/22 and applies to each fixed three year period thereafter.

### Annual operational plan

49. Annual operational plans (AOPs) were introduced in 2018/19 and the preparation of these continues for 2019/20. The Board's 2019/20 AOP was presented to the Board for approval and submission to the Scottish Government Health and Social Care Directorates in April 2019.
50. The AOP is supported by a three year financial plan; a summary of which is included within the AOP. The Board has forecast a breakeven position for each of the three years commencing 2019/20 (Exhibit 3).



### Exhibit 3: Forecast Revenue Resource Limit (£million)



Source: 2019/20 Annual Operational Plan

### Savings

51. The delivery of a balanced financial plan is dependent on realisation of a savings plan (Exhibit 4). The Board has identified risk areas such as the workforce plan skill mix and staff rostering which could impact on the realisation of the plan.

### Exhibit 4: Savings required over the three year period

	2019/20 £'000	2020/21 £'000	2021/22 £'000
Savings	2,103	1,972	1,861

52. The AOP highlights the level of recurring and non-recurring savings and unidentified savings for 2019/20. The AOP currently indicates that 93% (including the unidentified savings) are non-recurring. The level of unidentified savings is £967,000.
53. The Board has, over recent years, delivered a high proportion of non-recurring savings and, looking forward, this continues to be the forecast position (Exhibit 5).
54. Recurring savings are savings that, once achieved, recur year-on-year from that date. Recurring savings therefore represent reductions to the underlying cost base, such as savings from streamlining services. Non-recurring savings are one-off savings that apply to one financial year only, and do not result in ongoing savings in future years, for example not filling a vacancy on a temporary basis. Identifying new recurring savings becomes more difficult for NHS boards each year. Boards that make high levels of non-recurring savings are likely to have to find the same or higher levels of savings again in future years. Non-recurring savings typically come from short-term decisions rather than initiatives to change the way services are

delivered. Further work is required in 2019/20 to ensure the Board delivers a higher proportion of recurring savings.

### Exhibit 5: Savings split between recurring and non-recurring

Savings by type	2016/17 (£'000)	2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)
Recurring	243	176	371	135
Non-recurring	1,532	1,231	1,421	1,968
<b>Total</b>	<b>1,775</b>	<b>1,407</b>	<b>1,792</b>	<b>2,103</b>
% ratio (recurring: non-recurring)	14:86	13:87	20:80	7:93
Forecast in financial plans		45:55	40:60	7:93

Sources: Prior year Annual Reports on the Audit & 2019/20 Annual Operational Plan (note: excludes contribution to National Boards' savings target)

### Financial pressures

55. The Board has identified the following financial pressures in 2019/20:
- Increase in superannuation costs (6% increase)
  - Payroll impact from the expected outcome of the legal case 'Locke vs British Gas' and the potential liability for additional shift payments required
  - Workforce plan numbers and skill mix
  - Pressure from any unfunded element of increased payroll costs
  - Potential increases in rates and utility costs
  - Associated costs with the forthcoming capital plans (paragraph 60); and
  - Costs associated with the upkeep of the hospital estate.

### Collaborative working

56. National health boards continue to work together to identify ways to collectively standardise and share services. A target has been set to reduce the operating costs of National Boards by £15million in 2019/20; with the aim that this revenue can be reinvested in frontline NHS Scotland priorities.



57. In the prior year, the savings target was pro-rated across the National Health Boards based on the RRL of each Board. Going forward, the plan is to deliver the savings target through targeting real change in the way support services are delivered. The focus is on four key work streams; HR, procurement, finance and estates.
58. The Board is also assessing opportunities to work with the West of Scotland territorial Boards and National Board Collaborative to assess all opportunities in the regional and national planning agenda.
59. Collaboration for the provision of a number of administrative services is being taken forward with local authorities and other NHS Boards including South Lanarkshire Council (Social Services, HR services); NHS Greater Glasgow and Clyde (payroll); NHS NSS (finance, procurement); and NHS Lothian (prescribing).
- at this stage, but the Board will continue to monitor this position.

## Capital Plan

60. The Board's capital plan outlines significant investment in its estate over the next five years, totalling £9.925million. This includes the Board's planned work on the Perimeter Security and Enhanced Internal Security System (£8.6million). This project is currently at the tendering stage.

## Impact of EU withdrawal

61. Audit Scotland has highlighted EU withdrawal as a significant risk facing public bodies across Scotland. Three streams of potential impact were identified:
- Workforce
  - Funding
  - Regulation.
62. Senior management formally considered the potential impact of EU withdrawal with regard to the Board's workforce, funding and regulation in 2017/18. No significant risks to the Board were identified in relation to these areas. This position has continued throughout 18/19.
63. The Board does not expect EU withdrawal to have any impact on its workforce as there is a minimal number of EU staff employed. In addition, the Board does not receive any direct EU funding. As a result, EU withdrawal has had minimal impact on workforce and financial plans.
64. There is on-going review of EU regulations for any potential changes. Key areas identified by the Board are; procurement, staff working times and medical regulation. No significant risks have been identified



# 5. Financial management

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



All three key financial targets for the year were met.

The Board has effective arrangements in place for financial management and the use of resources.



## Financial performance

*All Boards have to work within the resource limits and cash requirements set by the Scottish Government.*

against its revenue resource limit of £12,000 and a saving against its capital resource limit of £4,000.

65. All key financial targets were met in 2018/19. The State Hospitals Board for Scotland made a saving

### Exhibit 6: Performance against resource limits

Financial target	Limit £000	Actual £000	Variance £000	Target achieved?
Revenue resource limit (RRL)	34,547	32,535	12	Yes
Capital resource limit (CRL)	303	299	4	Yes
Cash requirement	33,133	33,133	0	Yes

#### Delivering financial balance

66. The Board reported a £12,000 under-spend against its revenue resource limit (RRL). This represents 0.03% of the RRL and is therefore in line with the breakeven position forecast at the start of the year. The outturn includes a carry forward of £5,000 from 2017/18, which was received as a non-recurring revenue allocation during 2018/19.
67. Nursing overtime costs continued to be a significant financial pressure throughout 2018/19 and threatened the achievement of a break even position. As at the end of March 2019, the Nursing and AHPs directorate reported an adverse variance against budget of £571,000. A £863,000 overspend was reported against ward nursing. This was offset by underspends across other services within this directorate.
68. At the start of the year, the Board's contribution to the National Boards' saving target was set at £440,000. During the year, however, the Board, in common with a number of the other National Boards, forecast and reported that they would not be in a position to contribute the full amount as doing so would be likely to jeopardise its ability to breakeven in 2018/19, primarily due to the nursing overspend mentioned above. As noted in Exhibit 7, the Board contributed £220,000 to the National Board's saving target in 2018/19.
69. As discussed within Section 7 of this report, Value for Money, the level of nursing overtime spend incurred is not sustainable and immediate action is required.

#### Capital programme was delayed

70. The Board aimed for the perimeter security project to begin during 2018/19. Issues with the tendering process delayed the start of the project and therefore this project has been delayed until 2019/20.
71. The CRL for 2018/19 did not include any specific funding for the perimeter security project.

#### Efficiency savings

72. In setting a balanced budget for 2018/19, the Board required to achieve £1.765million efficiency savings. In addition, the Board committed to delivering £440,000 savings towards the national savings target.
73. The Board exceeded its efficiency savings target by £27,000, predominantly as a result of delivering significant workforce savings. However, the Board underachieved against its contribution towards the national board target by £220,000 (Exhibit 7).
74. To ensure continuous improvement and achievement of efficiency savings targets in future years, it is important that the Board is able to identify recurring savings. Of the total savings in 2018/19 (£1.792million), 20% were recurring (£371,000).



### Exhibit 7: Efficiency savings in 2018/19

Efficiency savings	Recurring (£'000)	Non-recurring (£'000)	Total (£'000)
Board target	431	1,334	1,765
Actual	371	1,421	1,792
<b>(under)/over</b>	<b>(60)</b>	<b>87</b>	<b>27</b>
National	-	440	440
Actual	-	220	220
<b>(under)/over</b>	<b>-</b>	<b>(220)</b>	<b>(220)</b>

Source: Report to the Board "Financial Position as at 31 March 2019" April 2019

### Budget monitoring and control

75. During 2018/19 the Board established a new Risk, Finance and Performance Group. The group focusses on the performance of the Board and reviews the strategic and financial performance at each meeting.
76. Financial reports are presented and reviewed at the Board. Financial monitoring reports show comparisons with prior year to provide the board members with context over the current situation.

### Key supplier dependency

77. One of the sector risks identified by Audit Scotland for 2018-19 relates to public sector organisations' reliance on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where suppliers are experiencing difficult trading conditions.
78. The Board has not identified any suppliers that they rely on regularly for specific goods or services. A review was carried out in June 2019 to examine any goods and services that were not approved through the tendering process to ensure the Board is not reliant on any services.

### Systems of internal control

79. We have evaluated the Board's key financial systems and internal financial controls to determine whether they are adequate to prevent material misstatements in the annual accounts. Our

approach has included documenting the key internal financial controls and performing walkthroughs to confirm that they are operating as intended.

80. We did not identify any significant weaknesses in the Board's accounting and internal control systems during our audit.

### Internal audit

81. An effective internal audit service is an important element of a Board's overall governance arrangements. The Board's internal audit service is provided by RSM. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Board's total audit resource.

### Prevention and detection of fraud and irregularity

82. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate.
83. Regular updates on fraud related matters (including Counter Fraud Services updates), the National Fraud Initiative (NFI) are presented to the Audit Committee.

### National fraud initiative

84. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
85. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019. Match investigation work should be largely completed by 30 September 2019 and the results recorded on the NFI system.
86. We have reviewed the Board's participation in the NFI scheme. Overall we have concluded that the Board's arrangements with respect to NFI are satisfactory.



# 6. Governance and transparency

**Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.**

---



Governance arrangements at the Board were found to be satisfactory and appropriate.

Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.



## Governance and transparency

### Governance arrangements

87. In our external audit plan we noted that the Chair, Chief Executive, Employee Director and a further non-executive director were due to retire in March 2019. The Executive Team was managing these changes to ensure leadership resilience over that period and mitigate any risks of knowledge loss or reduced focus on strategic objectives.
88. The following changes in the governance arrangements have happened during the period:
- The Chair completed eight years in office at the end of March 2019 but has agreed to remain in post until 31 March 2020;
  - Gary Jenkins has been appointed as the new Chief Executive, taking up post on 1 April 2019;
  - Tom Hair was appointed Employee Director in April 2019;
  - Elizabeth Carmichael (a non-executive board member) retired in November 2018. David McConnell was appointed on 1 December 2018;
  - The security director retired in November 2018; with a new appointment from December 2018; and
  - A new interim HR director was appointed from 1 October 2018.
89. Induction programmes were in place to ensure the new board members were introduced to their new role and activities in an informative manner.
90. Since January 2018, a number of national boards have been trialling a collaborative working set up that sees Directors of Finance taking on the role across multiple Boards. The Finance and Performance Management Director from the State Hospitals Board for Scotland took on the same role, two days a week, at the National Waiting Times Centre Board. This arrangement came to an end in December 2018.

### Blueprint for good governance

91. In January 2019, the Scottish Government published the Blueprint for Good Governance. The document draws on best practice to ensure all boards assess and develop their corporate governance systems.
92. NHS Boards were asked to conduct a self-assessment against the areas outlined within the document. The Board carried out its self-assessment survey between 15 February and 1 March 2019. A Board Development Session took

place in March 2019 to review the results and the findings were presented to the Board in April 2019.

93. The Board Development Session allowed for consideration of the results against the five functions of governance described in the Blueprint (setting the direction; holding to account; assessing risk; engagement stakeholders and influencing culture), as well as identifying the key factors that influenced the results. The session clarified the key priorities for the Board in the coming year, and an action plan to take these forward.

### Openness and transparency

94. One of the sector risks identified by Audit Scotland for 2018/19 relates to public sector organisations keeping pace with public expectations relating to openness and transparency.
95. We consider the Board to exhibit good practice with respect to openness and transparency through the following arrangements:
- Publication of Board papers on its website;
  - Committee minutes and updates are available to the public through Board papers;
  - Key publications (including operational plan, results of annual review, annual accounts) are available on the website; and
  - Register of interests are available on the website.

### Standards of conduct

96. In our opinion the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct. We have also considered compliance with the regulatory guidance that is produced by the SGHSCD throughout the year.

### National health board collaborative partnership

97. Revised planning structures across the Scottish public sector are being implemented with the Board playing a significant role in collaborating with other National Health Boards.
98. National Boards have been working collaboratively for a number of years but as the level of



collaboration increases, the need for a clear governance structure increases.

99. A draft governance framework has been developed in order to formalise how national boards could align in governance terms to facilitate the joint working set out in the draft NHS National Boards Collaborative Discussion Document. The framework proposes the introduction of a Strategic Forum which would hold senior representation from across the National Health Boards. This document is still in draft form and due to be reviewed by Audit Scotland and approved by staff side over the next couple of months.



# 7. Value for money

**Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the Board's own reporting of its performance.**



The Board has appropriate performance management processes in place that support the achievement of value for money. Progress has been made toward the achievement of 8 out of the 13 KPI measures.

Sickness absence rates and overspends on nursing overtime continue to present a significant challenge to the Board's financial position.



# Value for money

## Performance management arrangements

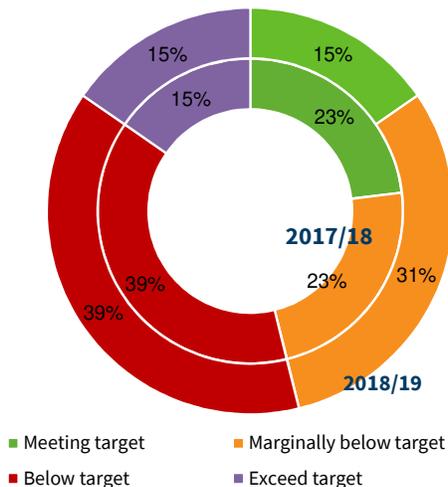
100. The Board has developed a performance management framework and receives reports on organisational performance and finance each quarter. An annual overview of performance is also prepared, which is available on the Board’s website.

### Performance has remained relatively static in comparison to the prior year

101. The Board identified 13 local key performance indicators (KPIs) in 2018/19. Progress against these KPIs has been reported in the Annual Report and Accounts for the year ended 31 March 2019.

102. As illustrated in Exhibit 8, performance in 2018/19 is comparable to the prior year. The number of KPIs which exceeded target or were below target remained the same (two and five respectively). One indicator - the % of patients who commenced psychological therapies in less than 18 weeks from referral date moved from ‘meeting target’ to ‘marginally below target’.

**Exhibit 8: Performance against target in 2018/19**



Source: Annual Report and Accounts for year ended 31 March 2019

103. The KPI’s which have not met the 2018/19 target are noted below:

- Sickness absence: 8.26% (target: 5%)
- Patients engaged in off-hub activity: 81.7% (target: 90%)

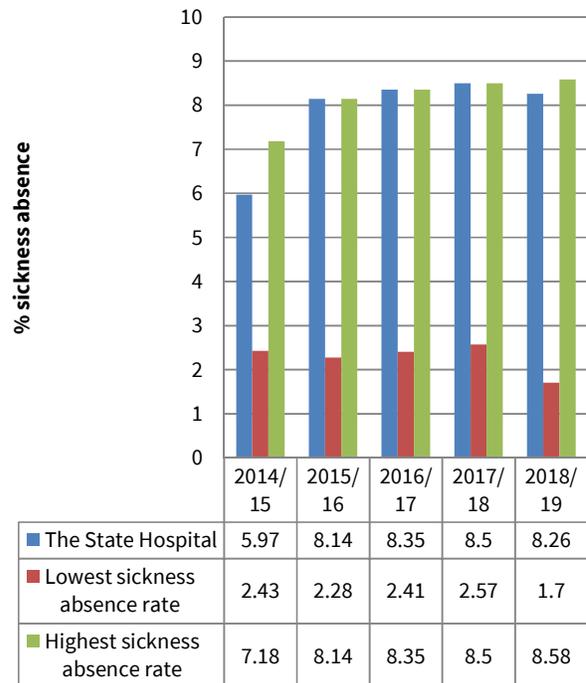
- Patients have a healthy BMI: 13.7% (target: 25%)
- Staff have a personal development plan review: 80.9% (target: 100%)
- Patients engaged in 90 minutes or more of physical activity per week: 56.3% (target: 80%).

104. We also noted that, in comparison to the prior year:

- For the two indicators where performance exceeded target the actual performance has declined in comparison to the prior year; and
- For the five indicators where performance is below target, the performance has improved for three and declined for two.

## Sickness absence

105. As highlighted in Exhibit 9, the Board has historically reported the highest or one of the highest sickness absence rates across NHS bodies in Scotland.



**Exhibit 9: Sickness absence rates over the last 5 years**

Sources: The State Hospital Boards for Scotland Annual Accounts. ISD Scotland website: sickness absence rates.



### Notes:

The lowest sickness absence rates have been reported by NHS Education for Scotland (2015, 2016, 2018 & 2019) and Healthcare Improvement Scotland (2017).

The highest sickness absence rates have been reported by The State Hospitals Board for Scotland (2016, 2017 & 2018), the Scottish Ambulance Service (2015) and NHS 24 (2019).

The national target is 4% and the target set by the State Hospitals Board for Scotland is 5%.

106. In August 2018 an Attendance Management Improvement Task Group was reconvened when the Board's sickness absence level was rising to near 10%. An action plan was developed and this group took the lead on implementation. Four areas of focus were identified: leadership, training and support, policy compliance and monitoring performance.

107. The overall aim of the group was to achieve a 3% reduction in sickness absence rates by March. The baseline position was 9.8%, so the target was 6.8%. As at 31 March 2019, the Board reported a sickness absence rate of 8.26% and therefore did not meet the target.

108. In a report to the Board in February 2019, the group reported that it had progressed all actions, with some being complete and others requiring ongoing attention. The group had also considered other actions that may improve attendance and would report progress to the Staff Governance Committee.

109. Addressing sickness absence is a key priority for the Board and is recognised as such in its Annual Operational Plan. It was also highlighted in the Board's performance assessment paper in advance of the annual review in January 2019. The Board, Staff Governance Committee and Audit Committee all receive regular reports on sickness absence.

110. Notwithstanding the attention and actions that the Board is giving to this area, the level of sickness absence over the last four years has consistently been over 8%.

111. We reviewed the attendance management action plan (as presented to the Board in February 2019) and made the following observations:

- The action plan does not articulate the specific impact or outcome the actions will have. This may assist the Board in identifying whether the actions to be taken are the most appropriate at this time and allow for ongoing monitoring and scrutiny of specific actions;

- The action plan notes timescales for completion but does not stipulate how the actions will be monitored on an ongoing basis to ensure they are being sustained;
- A 3% reduction was an ambitious aim to be delivered within a short period of time. The actions developed were all set a timescale for completion before or by 31 March 2019. Given the scale of the challenge and based on historical performance, consideration should be given to developing additional actions which will contribute to the reduction of sickness absence levels but may take a longer period of time to implement.
- Consideration should be given to reporting lines and the purpose of information being presented. As noted previously, the Board, Staff Governance Committee and Audit Committee all receive information on sickness absence levels.

*Action plan point 2*

### Nursing overtime

112. Nursing overtime costs continue to be a significant cost pressure for the Board. Due to the nature of the service provided by the Board, all nursing shifts which are scheduled and are then affected by either sickness or high levels of clinical intensity need to be filled in order to maintain safe staff levels.

113. A service sustainability group was set up during 2018/19 to take forward actions to address the levels of nursing overtime. At its update to the Board in February 2019 the SSG noted that the following actions have had the highest impact:

- Process controls, including limiting weekly overtime hours,
- Changes to observation practice such as the introduction of the clinical pause,
- Introduction of a nursing pool,
- Service level agreements where State Hospital staff are working sessions in other services,
- Focus on sickness absence.

114. Whilst overtime levels have reduced in comparison to the prior year, it is acknowledged that there is a need to move towards more sustainable service delivery. A range of actions have been identified to be taken forward in 2019/20.



# 8. Appendices

---





## Appendix 1: Respective responsibilities of the Board and the Auditor

### Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

#### In preparing the annual report and accounts, the Board and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
- ensure the regularity of expenditure and income.

#### Board members are also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditor responsibilities

#### We audit the annual report and accounts and give an opinion on whether:

- they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM ;
- they have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report is consistent with the financial statements and has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement is consistent with the financial statements and has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

#### We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.



## Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

## Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

### Confirmation of independence

We confirm that we have complied with the FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and the Board, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.



## Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

### Action plan grading structure

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Explanation
<b>Grade 5</b>	Very high risk exposure - Major concerns requiring immediate attention.
<b>Grade 4</b>	High risk exposure - Material observations requiring management attention.
<b>Grade 3</b>	Moderate risk exposure - Significant observations requiring management attention.
<b>Grade 2</b>	Limited risk exposure - Minor observations requiring management attention.
<b>Grade 1</b>	Efficiency / housekeeping point.



## Current year action plan

Action plan point	Issue & recommendation	Management comments
1. Related Parties	<p><b>Issue</b> During our audit we noted that management do not currently complete a transactional review to identify transactions that have taken place throughout the year with identified related parties.</p> <p><b>Risk</b> There is a risk that material related parties are not identified or disclosed in the accounts in future years.</p> <p><b>Recommendation</b> We would encourage the Board to review its related party procedures and ensure a transactional review takes place at year end to identify material transactions between the board and the identified related parties</p>	<p>A review will be undertaken of any transactions through the year with related parties as identified from the Directors' disclosures.</p> <p><b>Responsible officer:</b> Finance &amp; Performance Director</p> <p><b>Implementation date:</b> 30 April 2020</p>
Rating		
Grade 2		
Paragraph Ref		
43		



Action plan point	Issue & recommendation	Management comments
<p>2. Sickness Absence</p> <p>Rating</p> <p><b>Grade 4</b></p> <p>Paragraph Ref</p> <p>111</p>	<p><b>Issue</b> The Board has historically reported the highest or amongst the highest sickness absence rates across NHS bodies in Scotland.</p> <p>In August 2018 an Attendance Management Improvement Task Group was reconvened when the Board's sickness absence level was rising to near 10%.</p> <p>We reviewed the attendance management action plan (as presented to the Board in February 2019) and made a number of observations where there is scope for improvement.</p> <p><b>Risk</b> There is a risk that the Board does not achieve its key financial targets, due to the link between sickness absence and overtime and the impact this is having on staff.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>The action plan should articulate the impact or outcome the actions will have on achieving a reduction in sickness absence.</li> <li>The action plan should stipulate how the actions will be monitored on an ongoing basis to ensure they are being sustained.</li> <li>Consideration should be given to developing additional actions which will contribute to the reduction of sickness absence levels but may take a longer period of time to implement.</li> <li>Consideration should be given to reporting lines and the purpose of information being presented. The Board, Staff Governance Committee and Audit Committee all receive information on sickness absence levels.</li> </ul>	<p>The focus and ongoing work of the Attendance Management Action group is:</p> <ol style="list-style-type: none"> <li><b>Leadership</b> <ul style="list-style-type: none"> <li>Set and monitor baseline target of ≤ 6.80%</li> <li>Overcome barriers to policy implementation</li> <li>Ongoing visibility and engagement of leadership team.</li> </ul> </li> <li><b>Training and Support</b> <ul style="list-style-type: none"> <li>Enhance knowledge of policy through Attendance Management online mandatory training module, Staff Bulletin to advise staff of policy, aims, actions and key messages</li> <li>Management support via absence toolkit, checklists and regular HR Team monthly meetings with managers.</li> <li>Inform managers of staff historic sickness absence patterns</li> </ul> </li> <li><b>Policy Compliance</b> <ul style="list-style-type: none"> <li>Monitor policy compliance by peer review.</li> </ul> </li> </ol> <p><b>Responsible officer:</b> HR Director</p> <p><b>Implementation date:</b> Ongoing</p> <p>The longer term focus is considering potential additional support for absence related to mental health issues and the impact organisational culture has on attendance. Reporting of absence is being reviewed as part of revised HR Directorate reporting.</p> <p><b>Responsible officer:</b> HR Director</p> <p><b>Implementation date:</b> 31 December 2019</p>



## Follow up of prior year recommendations

Of the three recommendations raised within our 2017/18 annual audit report, we note that two have been implemented and one is ongoing. Details are given below.

### 1. Asset Register

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Observation</b></p> <p>During our audit we noted that a number of the Board's PPE and Intangible assets had been fully written down but are still in use. This is a particular issue in respect of the Board's IT assets. As these assets are still in use it would appear unreasonable for them to be fully depreciated and would suggest that the estimated useful life applied is inaccurate.</p> <p><b>Recommendation</b></p> <p>The Board should consider the remaining useful life of assets on an annual basis, as part of the verification exercise, and ensure that any changes are.</p>	<p>Asset lives will be reviewed in 2018/19 as part of the annual review and this will be considered. However, it should be noted that the current useful lives have been assessed on a prudent basis and that, in certain cases, assets (where still serviceable and where no risk identified) have been used for longer periods due to constraints and prioritisations on capital funding.</p> <p><b>Action owner:</b> Finance and Performance Management Director</p> <p><b>Due Date:</b> 31 March 2019</p>
Current status	Update	
<b>Complete</b>	The useful lives were considered as part of the 2018/19 audit work and the issue is considered closed.	



## 2. Systems back-up

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Observation</b> System back-ups are only tested as and when required, and there is no formal testing programme. The system was fully tested in 2016/17 but this was a reactive measure to issues identified during the year.</p> <p><b>Recommendation</b> IT back-ups should be tested on a regular basis, in line with an established timetable. Evidence should be retained to confirm that this exercise has been completed.</p>	<p>This is noted and a timetable for back-up testing will be established.</p> <p><b>Responsible officer:</b> Head of eHealth</p> <p><b>Implementation date:</b> September 2018</p>
Current status	Update	
<b>Complete</b>	Now cleared – timetable established.	



### 3. Nursing overtime costs

Initial rating	Issue & recommendation	Management comments
<p><b>Grade 4</b></p>	<p><b>Observation</b></p> <p>Nursing overtime costs continue to be a pressure for the Board and threatened the achievement of a break even position in 2017/18. Remedial action was taken by the Board however these measures are not considered sustainable. The Board has identified this as a key priority for 2018/19 and immediate action is required to address overtime costs in both the short and long term.</p> <p><b>Risk</b></p> <p>There is a risk that the Board does not achieve its key financial targets, due to the ineffective management of overtime.</p> <p><b>Recommendation</b></p> <p>An action plan should be developed and supported by clear performance measures to assess the impact of the actions. The action plan and supporting measures should be subject to regular review by the Board.</p>	<p>An action plan is currently under development, following a Board workshop in May 2018. Once complete, reports on these actions will be presented regularly to Board for review.</p> <p><b>Responsible officer:</b> Nursing and AHP Director</p> <p><b>Implementation date:</b> August 2018</p>
Current status	Update	
<p><b>Ongoing</b></p>	<p>Process controls for overtime have been improved over the past 12 months including capping the weekly allowable overtime to 23 hours per week, and ensuring escalation of approval required for planned overtime shifts that are higher than band 6. There has been a significant reduction in the numbers of staff working more than 100 hours over the past 12 months – for example between August and September 2018, there were 37 occasions when staff worked more than 100 hours overtime in a month, yet in the 3 months January to March 2019, this was just 3.</p> <p>Recruitment to a pool of 12 unregistered staff has been achieved, with these staff recruited between November 2018 and the end of February 2019. The effect of this has been to deliver an average of 900 excess hours per month as opposed to these being worked as overtime shifts.</p> <p>Overtime costs continue to be a significant area of pressure however, there has been a reduction in overtime spend of £260,000 when compared to spend in 17/18.</p> <p>Variation to shift pattern of new registered nursing staff has been agreed. These staff will work a 5 day a week 7.5 hour shift pattern, which will allow more flexibility regarding deployment of registered nursing staff.</p> <p><b>For 2019/20::</b></p> <ul style="list-style-type: none"> <li>Continued improvements to overtime controls, aided by enhanced workforce data.</li> <li>Improvements to rostering practice, supported by workforce team at HIS.</li> <li>Proactive recruitment to funded WTE so as to avoid workforce gaps.</li> <li>Further enhancements to pool to help ensure flexibility and mitigate against overtime costs</li> </ul> <p><b>Responsible officer:</b> Director of Nursing and AHPs <b>Implementation date:</b> 31 December 2019</p>	

