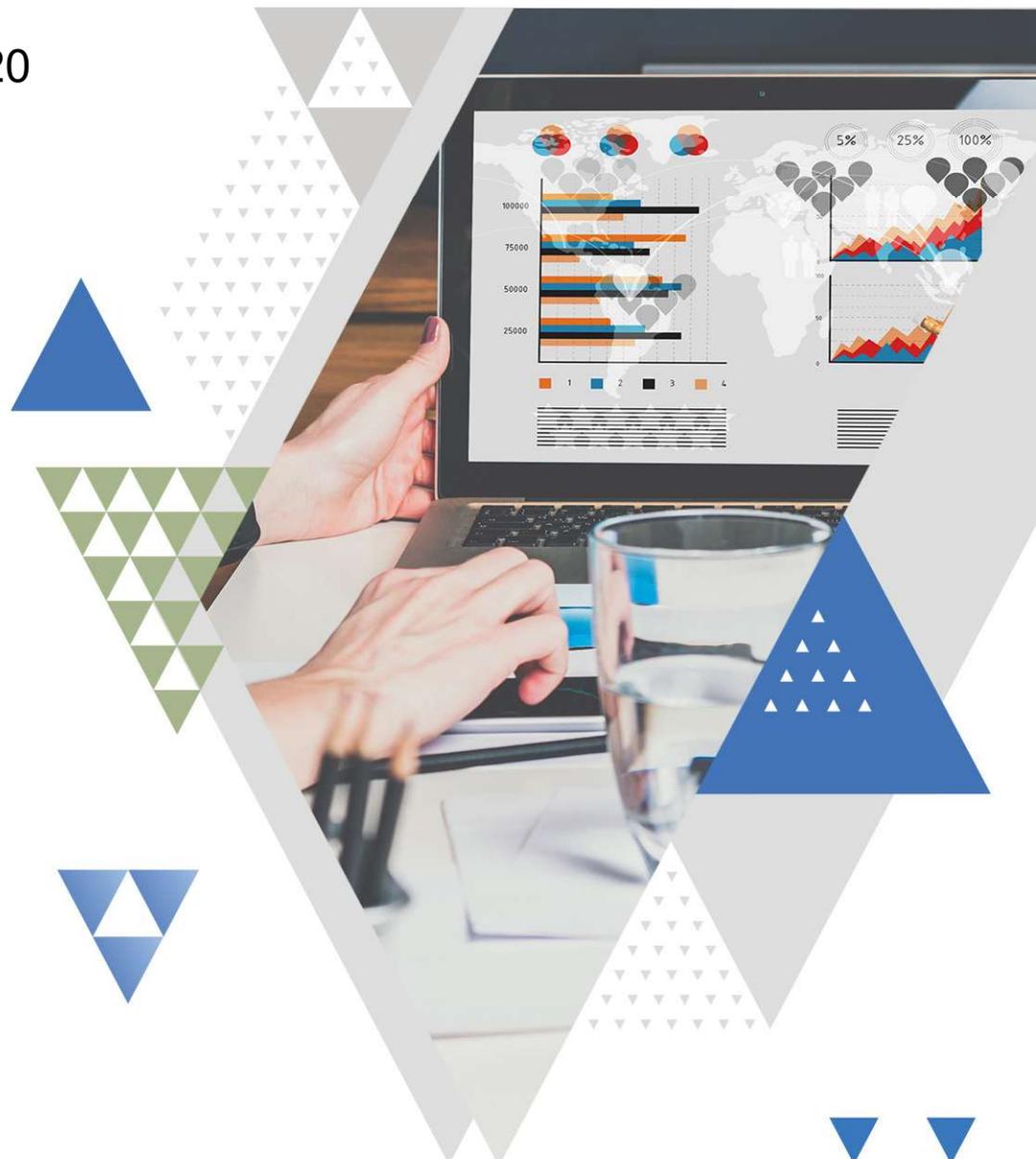




# The State Hospitals Board for Scotland

2019/20 Annual Audit Report to the Board and the Auditor General for Scotland

September 2020



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# Key messages



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<p><b>Annual accounts</b></p>	<p>The annual accounts were considered by the Audit Committee on 18 June 2020 and approved by the Board on 2 July 2020. Our independent auditor's report is unqualified.</p> <p>We have drawn attention in our independent auditor's report to the effects of a material uncertainty, caused by COVID-19, on the property values. Our opinion is not modified in respect of this matter.</p>
 <p><b>Financial Sustainability</b></p>	<p>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.</p> <p>An Annual Operational Plan (AOP) is in place for 2020/21 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.</p> <p>The Board has, in recent years, delivered a high proportion of non-recurring savings and, looking forward, this continues to be the forecast position. The 2020/21 AOP currently indicates that 81% of the savings required are non-recurring. The level of unidentified savings is £607,000; representing 37% of the total 2020/21 savings target.</p> <p>Additional costs, specifically due to the COVID-19 pandemic were incurred by the Board in the final month of the financial year 2019/20 and have continued into 2020/21. These costs have been formally reported to the Scottish Government. The Board is continuing to assess the potential future financial demands on its staffing resource and the requirements to support a new way of working as a result of the COVID-19 pandemic.</p>
 <p><b>Financial Management</b></p>	<p>All three key financial targets for the year were met.</p> <p>The Board has effective arrangements in place for financial management and the use of resources.</p> <p>The Board's outturn position has historically been put at risk by significant nursing overtime expenditure. Specific controls were introduced in 2019 with the aim of reducing overtime. In 2019/20 the Board did experience a reduction in nursing overtime.</p>
 <p><b>Governance &amp; Transparency</b></p>	<p>Governance arrangements at the Board were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic to date.</p> <p>Effective arrangements are in place regarding financial control, prevention and detection of fraud and irregularity, and standards of conduct.</p>



### Value for Money

The Board has appropriate performance management processes in place that support the achievement of value for money. Performance in 2019/20 was the same or improved in nine of thirteen KPIs, compared to the previous year.

Addressing sickness absence is a key priority for the Board and was recognised as such in the 2019/20 Annual Operational Plan. The Board, Staff Governance Committee and Audit Committee all receive regular reports on sickness absence. The sickness absence rate for 2019/20 was 6.25%; which represented a significant reduction from 8.26% in 2018/19 and the lowest level reported by the Board since 2014/15.

## Conclusion

This report concludes our audit for 2019/20. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Azets  
September 2020

# Introduction

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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 2019/20.

We carried out our audit in accordance with Audit Scotland's Code of Audit Practice.

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## Introduction

1. 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 2019/20 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



2. 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.
3. 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. We give each recommendation a grading to help management assess its significance and prioritise the actions required.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.

## Confirmation of independence

5. 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.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standards. In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

## Openness and transparency

10. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Adding value through the audit

8. 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

9. 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 any member of your audit team.

# Annual report and accounts

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

In this section we summarise the findings from our audit of the 2019/20 annual report and accounts.

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## Annual report and accounts

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

The annual accounts for the year ended 31 March 2020 were considered by the Audit Committee on 18 June 2020 and approved by the Board on 2 July 2020. Our independent auditor's report is unqualified.

We have drawn attention in our independent auditor's report to the effects of a material uncertainty, caused by COVID-19, on the property values. Our opinion is not modified in respect of this matter.

### Overall conclusion

11. 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.
12. We have drawn attention in our independent auditor's report to Note 1 Accounting policies, 1.27. 'Key sources of judgement and estimation uncertainty' of the financial statements, which describes the effects of a material uncertainty, caused by COVID-19, on the property values. Our opinion is not modified in respect of this matter.

### Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in the table below 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 below.

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

### Management override

In any organisation, there exists a risk that management have 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*.

*Noted in the 2019/20 External Audit Plan*

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- A grey arrow originates from the left side of the 'Management override' box and points towards the first item in the list.
14. 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 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.
  15. We did however identify two instances in 2019/20 where a journal was posted and authorised by the same individual. Our testing confirmed that both journals were appropriately supported by evidence and we concluded that there was no indication of management override. We have raised a management action point to ensure the Board's procedures are reiterated to all staff and the compliance is monitored.

**Action Plan Point 1**

## 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 income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

*Noted in the 2019/20 External Audit Plan*

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16. At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for the Board's revenue resource allocation from Scottish Government.
  17. Based on audit work performed, 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.

## Risk of fraud in the recognition of expenditure

Practice Note 10 - *The Audit of Public Sector Financial Statements* recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

*Noted in the 2019/20 External Audit Plan*

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18. 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 financial statements. To inform our conclusion we carried out testing to confirm that the Board's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

## Update to our initial risk assessment

19. Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise. We have specifically updated our risk assessment and audit plan in light of COVID-19. We recognised this as a key audit risk<sup>1</sup>.

### COVID-19

The COVID-19 pandemic is presenting unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. Core areas of service delivery have been suspended or substantially reduced, systems and processes have been amended to support remote working, arrangements for governance, decision making and performance management have been adapted, and many organisations are forecasting large operating deficits due to loss of income and/ or additional cost pressures. It is uncertain how long these challenges will persist.

The implications of these risks and uncertainties are under consideration by the Board, the health sector and the Scottish Government. We continue to monitor government and relevant announcements as they pertain to the audit and have adapted our audit approach as required.

20. In response to COVID-19 we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. These areas included:

- Property valuations
- Content of the annual report and accounts
- Access to audit evidence
- Timescales/administrative processes.

### Property valuations

21. During the pandemic, the Royal Institution of Chartered Surveyors (RICS) published guidance which outlines the challenges of valuing assets during this period, including the potential for valuations to be “qualified” with a “material valuation uncertainty”.
22. The Board, in accordance with its accounting policies, measures its property assets at fair value through a 5-year programme of professional valuations which are adjusted in intervening years to take account of

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<sup>1</sup> A key audit risk is one which may result in a material misstatement to the financial statements or

significantly impact on our audit judgements and conclusions on the wider scope dimensions.

movements in prices since the last valuation. The valuations are carried out in accordance with the RICS Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government. In line with its 5 year programme, a professional valuation will be carried out as at 31 March 2021.

23. For the year ended 31 March 2020, the Board instructed BNP Paribas Real Estate UK to provide indices for both land and buildings to allow the valuations to be updated. The report received from BNP Paribas Real Estate UK stated the following:

***Material Valuation Uncertainty***

*All of the indices and market reports used in preparing this letter were published prior to the emerging impact of COVID-19.*

*The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors.*

*As at March 2020, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*

*Our letter is therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the indices reported than would normally be the case.*

***BNP Paribas Real Estate UK 2020 Asset Valuation Letter to the State Hospitals Board for Scotland March 2020***

24. A material uncertainty in a valuer’s report does not mean that the information cannot be relied upon or that there is a misstatement. However, it indicates that less certainty can be attached to the information than would otherwise be the case.
25. The Board has disclosed this uncertainty within its Accounting Policies (Significant Accounting Estimates and Judgements). We encouraged the Board to quantify the uncertainty by way of sensitivity analysis disclosure, but this information was not available and so was not included in the financial statements.
- Action Plan Point 2**
26. We concluded that the material uncertainty over the indices provided and the associated impact on the property valuations is of such importance that it is fundamental to users’ understanding of the financial statements. Based on our audit work performed and conclusions, we have included an emphasis of matter paragraph in our independent auditor’s

report which draws attention to the disclosures made in the financial statements. Our audit opinion is not modified in respect of this matter.

#### Content of the annual report and accounts

27. In May 2020, HM Treasury issued an addendum to the Government Financial Reporting Manual (FRoM) which covered the following:
- The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
  - Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.
28. The Board took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.

#### Access to audit evidence

29. Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.
30. We have employed a greater use of technology to examine evidence, but only where we have assessed both

the sufficiency and appropriateness of the audit evidence produced.

31. We are pleased to report we received all audit evidence requested to allow us to form our audit opinion.

#### Timescales/Administrative processes

32. In Scotland, the administrative deadline for the submission of audited accounts of health boards and agencies is usually 30 June but this has been extended by three months to 30 September 2020. The legislative deadline for laying accounts in the Scottish Parliament however remains at 31 December 2020.
33. The Audit Committee considered the draft annual report and accounts on 18 June 2020. The Board approved the accounts on 2 July 2020 and submitted the accounts to the Scottish Government by the end of July 2020.
34. We worked closely with management throughout the audit to ensure that the required timescales was achieved.

#### An overview of the scope of our audit

35. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in January 2020. 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.

- 36. 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.
- 37. 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 management team. In performing our work we applied the concept of materiality, which is explained below.

- 40. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of any uncorrected and undetected misstatements exceed overall materiality.
- 41. Our initial assessment of materiality for the financial statements was £565,000. On receipt of the 2019/20 draft accounts, we reassessed materiality and kept it at £565,000. We consider that our updated assessment has remained appropriate throughout our audit.

### Our application of materiality

- 38. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We keep this assessment under review throughout the audit.
- 39. Performance materiality is the working level of materiality used to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

	Materiality £
<b>Overall materiality:</b> Our assessment is made with reference to the Board's Revenue Resource Limit (RRL). Achieving a breakeven position against RRL is a key target for the Board and one of the principal considerations for the users of the financial statements when assessing financial performance.	565
<b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	420
42. We noted within our External Audit Plan that we would report to the Board all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report any disclosure matters that we identify	

when assessing the overall presentation of the financial statements.

## Audit differences

43. We identified one material adjustment to the unaudited financial statements, as detailed at Appendix 3. The adjustment was in respect of the incorporation of the annual indexation charges to land and buildings.
44. We identified some disclosure and presentational adjustments during our audit, which were reflected in the final set of accounts.
45. Two unadjusted audit differences which are not considered material to the financial statements are also disclosed at Appendix 3. These relate to (i) an adjustment following receipt of updated property indices from BNP Paribas Real Estate UK, and (ii) reclassification of amounts between deferred income and provision for impairment of receivables. These were reported to management and included as an appendix to the letter of representation.

## Other matters identified during our audit

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

### Other information in the annual report and accounts

47. "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

48. 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.
49. We concluded that the performance report was prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

## The accountability report

50. The accountability report is required to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report, a remuneration and staff report; and a parliamentary accountability report. Our audit opinion specifically refers to the governance statement and the audited part of the remuneration and staff report.

## Governance statement

51. The coverage of the governance statement was in line with expectations.
52. We concluded that the governance statement was 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

53. We concluded that the audited part of the remuneration and staff report was prepared in accordance with the National Health Service (Scotland) Act

1978 and directions from Scottish Ministers.

### Regularity

- 54. We 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.
- 55. In our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.

### Service auditor reports

- 56. The Board utilise a number of shared IT systems, IT applications and processes with other Scottish Health Boards. Assurance reports are prepared by service auditors in the health sector under ISA (UK) 402 covering the national systems/arrangements.

Shared service	Service assurance
<p><b>National IT contract</b></p> <p>This contract covers the services provided by ATOS Origin Alliance e.g. controls over the server supporting eFinancials.</p>	<p>NHS National Services Scotland (NSS) procures a service auditor report from KPMG. In May 2020 KPMG reported a qualified audit opinion. We considered the findings of the report and are satisfied that this does not have a material impact on our audit approach or conclusions reached.</p>
<p><b>National Single Instance (NSI) eFinancials</b></p> <p>NHS Ayrshire &amp; Arran host this eFinancials service including the Real Asset Management system on behalf of all Scottish Health Boards.</p>	<p>NHS Ayrshire and Arran procure a service auditor report from BDO. The service auditor reported no critical or significant risk findings and reported an unqualified opinion.</p>

- 57. The Board, in its Governance Statement, noted the outcome of the service auditor report from KPMG and does not believe that these findings have any material impact on this Board's accounts and assurance.

### Follow up of prior year recommendations

- 58. We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details

of our findings are included in Appendix 2.

## Qualitative aspects of accounting practices and financial reporting

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 financial statements. Our audit conclusions on these qualitative aspects are as follows:

59. During the course of our audit, we considered the qualitative aspects of

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the financial statements, 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.	<p>We were satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>We included an emphasis of matter in our independent auditor's report drawing attention to the material uncertainty disclosure on property valuations.</p> <p>Significant estimates were 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 were informed by advice from qualified, independent experts.</p> <p>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 experts was appropriate.</p>

Qualitative aspect considered	Audit conclusion
The appropriateness of the going concern assumption	We reviewed the financial forecasts for 2020/21. 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 date of signing the annual accounts.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We did not identify any uncertainties, including any significant risk or required disclosures, which are not already included in the financial statements.
The extent to which the financial statements 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 financial statement disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and applicable accounting standards were made appropriately.
Disagreement over any accounting treatment or financial statements 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.

# 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 and 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 (AOP) is in place for 2020/21 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.

The Board has, in recent years, delivered a high proportion of non-recurring savings and, looking forward, this continues to be the forecast position. The 2020/21 AOP currently indicates that 81% of the savings required are non-recurring. The level of unidentified savings is £607,000; representing 37% of the total 2020/21 savings target.

Additional costs, specifically due to the COVID-19 pandemic were incurred by the Board in the final month of the financial year 2019/20 and have continued into 2020/21. These costs have been formally reported to the Scottish Government. The Board is continuing to assess the potential future financial demands on its staffing resource and the requirements to support a new way of working as a result of the COVID-19 pandemic.

## Significant audit risk

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

### Financial sustainability

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 over the coming years due to a number of financial pressures.

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.

*Noted in the 2019/20 External Audit Plan*

61. Our detailed findings on the Board's financial framework for achieving long term financial sustainability are set out below.

## Annual operational plan

62. Annual operational plans (AOPs) were introduced by the Scottish Government in 2018/19. The Board's draft 2020/21 AOP was submitted to Scottish Government and feedback received. Agreement on the plan however was paused due to the COVID-19 pandemic.
63. 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 2020/21.

### Forecast Revenue Resource Limit (£million)



Source: 2020/21 Annual Operational Plan

## Financial pressures

64. The following financial pressures are highlighted in the 2020/21 AOP:
- Workforce Plan Numbers and Skill mix
  - Payroll impact from the expected outcome of the legal case ‘Locke vs British Gas’ and the potential liability for additional shift payments required
  - Pressure from any unfunded element of increased payroll costs
  - Potential increases in rates and utility costs
  - Associated costs with the Hospital estate upkeep; and
  - The requirement for National Boards to provide additional savings on a recurring basis;
  - Delivery of savings plan; and
  - Lack of any increase in capital funding.
65. The Board monitors pressures and risks on an ongoing basis. Risk levels and financial implications are considered by the Senior Management Team, Risk, Finance & Performance Group, Partnership Forum and the Board.
66. The delivery of a balanced financial plan is dependent on the realisation of a savings plan.

## Savings required over the three year period

	2020/21	2021/22	2022/23
	£'000	£'000	£'000
Savings	1,641	1,500	1,432

Source: 2020/21 Annual Operational Plan

67. The AOP highlights the level of recurring and non-recurring savings and unidentified savings for 2020/21. Recurring savings are savings that, once achieved, recur year-on-year from that date. They 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, such as not filling a vacancy on a temporary basis.
68. The AOP currently indicates that 81% (including the unidentified savings) are non-recurring. The level of unidentified savings is £607,000; representing 37% of the total savings target.
69. The Board has, in recent years, delivered a high proportion of non-recurring savings and, looking forward, this continues to be the forecast position.

Savings by type	2016/17	2017/18	2018/19	2019/20	2020/21
	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
Recurring	243	176	371	27	307
Non-recurring	1,532	1,231	1,421	2,079	1,334
<b>Total</b>	<b>1,775</b>	<b>1,407</b>	<b>1,792</b>	<b>2,106</b>	<b>1,641</b>
% ratio (recurring: non-recurring)	14:86	13:87	21:79	1:99	19:81
Forecast in financial plans	N/A	45:55	40:60	7:93	19:81

Sources: Prior year Annual Reports on the Audit & 2020/21 Annual Operational Plan (*note: excludes contribution to National Boards' savings target*)

70. Identifying new recurring savings becomes more difficult for NHS boards every year. However boards that rely on 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.

71. Further work is required to ensure the Board delivers a higher proportion of recurring savings. The Board has recognised this as a priority and anticipates that the outcomes of the Clinical Model review will support this. However, the Board recognises that, with c.85% of its costs in staff costs, there are limited non-pay costs which can be reviewed for recurring efficiencies.

72. In order to deliver the required recurring savings and continue to improve service delivery, improvements will be required in operational productivity. This will

require new approaches to driving and monitoring efficiency and productivity.

## Impact of COVID-19 pandemic

73. Additional costs, specifically due to the COVID-19 pandemic were incurred by the Board in the final month of the financial year 2019/20 and have continued into 2020/21. These costs have been formally reported to the Scottish Government's COVID-19 Health Finance team within the Health Finance and Infrastructure Directorate.

74. Any costs in excess of £100,000 and attributable to the pandemic are required to be notified for approval to Scottish Government. During the period March to May 2020, the Board reported the following costs to the Scottish Government for approval:

- Overtime costs (£495,000)
- Delayed annual leave (£44,000)

- COVID-19 support team (£35,000) (team established to support the management of COVID-19 crisis, comprising 9 members of staff seconded from various departments)
  - IT costs (£20,000) – to facilitate remote working
  - Equipment costs (£8,000)
  - Estates/facilities costs (£6,000)
  - Recruitment of additional 12 student nurses on 6-month contracts (£260,000).
75. The Board is continuing to assess the potential future financial demands on its staffing resource and the requirements to support a new way of working.
- There is scope to deliver this by continuing to develop collaborative working to create improved quality and efficiency;
  - There is further scope to develop the ‘Once for Scotland’ approach and share practice more widely; and
  - Rather than delivering a pro-rata share of the £15m (apportioned in terms of the RRLs of each Board or other arbitrary allocations) the savings will be achieved by targeting real change in the delivery of support services and providing a true and measurable ‘Once for Scotland’ approach.
79. Work in delivering the target has focused on four key areas: Human Resources, Procurement, Finance and Estates.

## Collaborative working

76. National health boards continue to work together to achieve efficiencies by standardising and sharing services. In each of the last two years, national health boards have been set a collective recurring savings target of £15m by the Scottish Government. This has to be delivered in addition to any other required savings and is included as a financial pressure in the AOP.
77. The Board provided an agreed contribution of £220,000 towards the collective savings target in both 2018/19 and 2019/20. It is anticipated that the contribution will continue at this level in 2020/21.
78. National Boards have agreed that:
- There is a commitment to deliver the target on a sustainable basis;
80. The Board is working collaboratively with NHS National Services Scotland (NSS) with regard to accounts payable, receivables and support to the finance department,; and with Greater Glasgow & Clyde for the full provision of payroll services.
81. This has already led to efficiencies in the time spent on Board-specific tasks within the finance function, and with a departmental restructure underway for which recruitment of vacant posts is approaching conclusion, the finance department will provide a recurring savings benefit. At the same time, work is now beginning to evaluate the potential for further recurring NSS collaboration.
82. In addition to collaborating with other national boards, the Board has stated its commitment to explore collaboration with territorial NHS

- Boards and other public sector organisations.
83. Current collaboration already in place includes:
- Social Work Services are provided on a Service Level Agreement from South Lanarkshire Council;
  - Pharmacy supplies are provided by NHS Lothian;
  - Human Resource support is provided in collaboration with NHS Lanarkshire;
  - Occupational Health Service provision is provided in collaboration with NHS Lanarkshire;
  - Payroll services are provided through NHS Greater Glasgow and Clyde;
  - National Prison Care Network (Chaired by CEO);
  - National Police Care Network (Chaired by CEO);
  - National Estates Strategy (Chaired by CEO); and
  - Forensic Mental Health Network (Medical Director).
84. Each of these collaborations provides a significant resource benefit to each of the relevant departments as well as strengthening their operational flexibility and resilience.

## Capital Plan

85. The main significant capital project for the Board is the Perimeter Security and Enhanced Internal Security Systems Project.

86. Following the outbreak of COVID-19, it was anticipated the security upgrade would be suspended. However as the Scottish Government COVID-19 construction sector guidance advised that only essential projects should continue and that NHS boards should make decisions on their own individual projects, a revised phased programme was developed to allow the project to commence.
87. The revised work programme has been developed and accepted, design work has progressed and site activities have commenced.
88. A revised cost estimate was also necessary due to changes that took place since the Commercial Evaluation against which the contract was awarded.
89. Scottish Government are aware of the increased project costs and have requested monthly cash flow analysis reports. The estimated cost of the project is approximately £10.3million (originally anticipated to be in the region of £8.7million).

## Impact of EU withdrawal

90. 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 and this has continued to be the case.
91. The Board does not expect EU withdrawal to have a significant impact on its workforce as a minimal number of EU staff are employed. In addition, the Board does not receive any direct EU funding.

92. 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 at this stage, but the Board continues to monitor this position.

# Financial management

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

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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.

The Board's outturn position has historically been put at risk by significant nursing overtime expenditure. Specific controls were introduced in 2019 with the aim of reducing overtime. In 2019/20 the Board did experience a reduction in nursing overtime.

## Financial performance

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

93. All key financial targets were met in 2019/20. The Board made a saving against its revenue resource limit of £24,000.

### Performance against resource limits

Financial target	Limit £000	Actual £000	Variance £000	Target achieved?
Revenue resource limit (RRL)	37,214	37,190	24	Yes
Capital resource limit (CRL)	225	225	-	Yes
Cash requirement	34,393	34,393	-	Yes

### Delivering financial balance

94. The Board reported a £24,000 under-spend against its revenue resource limit (RRL). This represents 0.06% of the RRL and is therefore in line with the breakeven position forecast at the start of the year.

### Nursing overtime

95. The Board's outturn position has historically been put at risk by significant nursing overtime expenditure. Specific controls were introduced in 2019 with the aim of reducing overtime, including increasing the number of new start staff working on a five over seven day shift pattern and the use of pool staff to cover clinical activity. These controls are monitored by nursing management, with oversight and

challenge from the Chief Executive, to maximise their impact and provide meaningful comparisons for the future evaluation of the new clinical model.

96. While the Board experienced a reduction in nursing overtime, it continued to be affected by nursing staff recruitment challenges, sickness absence and clinical activity associated with high numbers of "exceptional circumstances" patients in its care.
97. The Board incurred additional costs in March 2020 due to COVID-19. The following costs associated with the COVID-19 pandemic were reported:
- Overtime costs: £170,000
  - Delayed annual leave: £44,000
  - COVID-19 support team: £18,000
  - IT costs: £20,000

- Equipment costs: £8,000
- Estates/facilities costs £6,000.

Initiative (NFI) are presented to the Audit Committee.

## Systems of internal control

98. 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 they are operating as intended.
99. We did not identify any significant weaknesses in the Board's accounting and internal control systems during our audit.

## Internal audit

100. 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

101. 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.
102. Regular updates on fraud related matters (including Counter Fraud Services updates), the National Fraud

## National fraud initiative

103. 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.
104. Participating bodies were required to submit data in October 2018 and received matches for investigation in January 2019.
105. We reviewed the Board's participation in the NFI exercise in February 2020. We confirmed that match investigation work has been completed and the results recorded on the NFI system, with no instances of fraud identified.
106. Overall we concluded that the Board's arrangements with respect to NFI are satisfactory.

# Governance and transparency

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

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Governance arrangements at the Board were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic to date.

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

## Governance and transparency

### Governance arrangements

107. The following changes in governance arrangements occurred during the period:

- The Chair completed eight years in office at the end of March 2019 but agreed to remain in post until 31 December 2020;
- Gary Jenkins was appointed as the new Chief Executive, taking up post on 1 April 2019;
- Tom Hair was appointed Employee Director in April 2019; and
- Brian Moore was appointed as a Non-Executive Director in February 2020. Mr Moore is the nominated Whistleblowing Champion.

108. Induction programmes are in place to ensure the new board members were introduced to their new role and activities in an informative manner.

109. The Board is currently looking for three new Non-Executive Directors as three current Non-Executive Directors are reaching the end of their term of appointment.

### Responding to the COVID-19 pandemic

110. The Board maintained its core function throughout the initial response phase to the Covid-19 pandemic. A review of the governance arrangements was carried out to ensure effective oversight during this time.

111. This review was conducted within the requirement of existing legislation, and in reference to the existing Standing Orders of the Board. The aim was also to identify new emerging risks within the corporate governance framework as well as options to mitigate these risks. A report was prepared and circulated to the Board on 30 March 2020.

112. The recommendations from the review included:

- Board Meetings to continue on the agreed schedule, and special meetings to be convened as required. The business transacted at the Board to be reviewed to allow oversight of the Covid-19 response as well as resilience of the senior leadership team in managing the response and reporting to the Board.
- Governance Committee meetings to be critically reviewed and may be paused depending on the emergent situation in managing the response to Covid-19. If a meeting is not quorate it would be rescheduled to the earliest possible date.
- Any divergence from the agreed work plans for the Board and its Committees, should be recorded in the minutes of the meeting appropriately.
- The Board should note the risk to achieving required quorum for Board and committee meetings.
- All Board and committee meetings should be held virtually by way of teleconferencing.

- There was no requirement to amend existing Standing Orders.
  - This position to be reviewed by the Board in six months' time, or sooner should the global pandemic situation change significantly.
113. Following agreement by the Board to each of these recommendations, this position was reported to Scottish Government on 1 April 2020.
114. The Board and associated Committee Structure schedule has remained unchanged. Meetings are held virtually, rather than in person, to comply with the need for non-essential travel and physical distancing. Agenda modifications to reflect the COVID-19 updates, have been agreed in advance of each meeting with the associated chair.
115. In response to the pandemic, the Board also stood up a COVID-19 Resilience Committee on 4 March 2020, with the initiation of a formal Command Structure (Gold / Silver / Bronze commanders), and submitted a Mobilisation Plan to the Scottish Government.
116. The following priority areas were identified:
- Patient Care and Treatment
  - Process for High Secure Patients Requiring Acute Medical Intervention
  - Safety and Security
  - Staff Deployment & Daily Business Continuity
117. These key priorities are supported by the Board's Pandemic Influenza and Loss of Staff business continuity plans.
118. To assist with identifying the daily issues impacting on the Hospital, a dedicated COVID-19 Support Team was established. The purpose of this team is to produce a coordinated response to the challenges across the organisation or deploy support where necessary. The Support Team meets with Silver Commanders. The Silver Command team, led by the Nursing Director and Security Director, link with the Gold Command team and escalate any issues as appropriate. The Gold Command meeting, chaired by the Chief Executive, is structured to meet weekly but can be stood up at any point depending on the issues arising.
119. In response to guidance from the Cabinet Secretary for Health and Sport, and in line with all other NHS Boards, the Board submitted a draft Interim Remobilisation Plan to Scottish Government on 25 May 2020. The draft plan has been shared with the Board, who endorsed this direction of travel at the Board Meeting held on 18 June 2020. The Interim Remobilisation Plan has now been approved by Scottish Government.

## Blueprint for good governance

120. 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.
121. 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.

122. 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 2019/20.
123. The Board submitted a six-month progress report in November 2019 to the Scottish Government. At the time, the progress report noted that of the 21 improvement actions, these were either completed or on track to be completed by the target date.

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 produced by the SGHSCD throughout the year.

## Clinical care model

124. In 2019, the Board endorsed its preferred option for a new Clinical Care Model. The model outlines a 10 ward model with eight major mental illness wards and two intellectual disability wards. The intention was to transition to the new Clinical Model between April and June 2020.
125. In March 2020, however, it was agreed by members of the Clinical Model Oversight Board to suspend activity on this area of work due to COVID-19. All members, external stakeholders and the Board agreed this was the most appropriate course of action. This position continues to be monitored.

## Standards of conduct

126. In our opinion the Board's arrangements in relation to standards

# 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 reporting of its performance.



The Board has appropriate performance management processes in place that support the achievement of value for money. Performance in 2019/20 was the same or improved in nine of thirteen KPIs, compared to the previous year.

Addressing sickness absence is a key priority for the Board and was recognised as such in the 2019/20 Annual Operational Plan. The Board, Staff Governance Committee and Audit Committee all receive regular reports on sickness absence. The sickness absence rate for 2019/20 was 6.25%; which represented a significant reduction from 8.26% in 2018/19 and the lowest level reported by the Board since 2014/15.

## Value for money

### Performance management arrangements

127. 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 reports are based on the Board's annual operating plan (AOP) and its associated targets and measures.
128. The Board identified 13 local key performance indicators (KPIs) in 2019/20. Progress against these KPIs was reported in the Annual Report and Accounts for the year ended 31 March 2020.
129. Performance in 2019/20 was the same or improved in nine KPIs, compared to the previous year. In four KPIs performance was below 2018/19.
130. Notwithstanding the improved performance, for seven of the KPIs the target performance level was not achieved. These were:
- Patients commenced psychological therapies in less than 18 weeks from referral date: 99.78% (target 100%)
  - Sickness absence: 6.25% (target: 5%)
  - Patients care and treatment plans reviewed at 6 monthly intervals: 91.73% (target 100%)
  - Patients engaged in off-hub activity: 83% (target: 90%)
  - Patients have a healthy BMI: 8.75% (target: 25%)

- Patients clinical risk assessment reviewed annually: 97.7% (target 100%)
- Patients engaged in 90 minutes or more of physical activity per week: 60.7% (target: 80%).

### Sickness absence

131. Addressing sickness absence is a key priority for the Board and was recognised as such in the 2019/20 Annual Operational Plan. The Board, Staff Governance Committee and Audit Committee all receive regular reports on sickness absence. The sickness absence rate for 2019/20 was 6.25%; which represented a significant reduction from 8.26% in 2018/19 and the lowest level reported by the Board since 2014/15.
132. The main reasons for sickness absence are:
- Anxiety/Stress/Depression/Other Psychiatric Disorders;
  - Musculoskeletal; and
  - Gastro-intestinal.
133. Updates on attendance management have continued as part of reporting on the response to COVID-19.
134. Details of weekly hours lost due to COVID-related special leave from 15 March 2020 to 7 June 2020 were reported to the Board in June 2020. At the peak of the pandemic; the % hours lost were between 14%-16%. This reduced to between 2%-3% week ending 7 June 2020. COVID-19 related work hours lost includes:
- Staff self-isolating due to being symptomatic

- Staff isolating due to a household member being symptomatic
- Staff who are shielding due to being in a “high risk” group, or being the main carer for a dependent in a “high risk” group.

135. Further details of the actions taken by management to address sickness absence are included in the follow-up section of the action plan at Appendix 2 of this report.

# 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 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 2020 and of the 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 2019/20 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;
- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate or the board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue;
- 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 financial statements 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 Ethical Standards. 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 Azets 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

The recommendations have been rated to help the Board assess the significance of the issues and prioritise the actions required.

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
<p>1. Journal authorisation</p> <p>Grade 2</p> <p>Paragraph Ref</p> <p>15</p>	<p><b>Issue</b></p> <p>We identified two instances in 2019/20 where a journal was posted and authorised by the same individual. Our testing confirmed that both journals were appropriately supported by evidence and we concluded that there was no indication of management override.</p> <p><b>Risk</b></p> <p>There is an increased risk of fraudulent or erroneous journals being posted if they are not subject to appropriate review and authorisation.</p> <p><b>Recommendation</b></p> <p>Management should ensure appropriate controls are in place to prevent or detect where a journal has been posted and authorised by the same individual, and reinforce Board procedures to all relevant staff.</p>	<p>TSH will ensure all journals are reviewed and authorised by a second person without anyone authorising a journal they themselves have raised.</p> <p><b>Responsible officer:</b> Deputy Director of Finance</p> <p><b>Implementation date:</b> Immediate</p>

Action plan point	Issue & recommendation	Management comments
<p>2. Sensitivity of estimation uncertainty – sensitivity analysis</p> <p>Grade 2</p>	<p><b>Issue</b></p> <p>IAS 1 ‘Presentation of Financial Statements’, requires entities to disclose information about assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year.</p> <p>In relation to property valuations, the Board has disclosed in its financial statements that ‘the range of uncertainty has not been identified and therefore are unable to quantify the potential impact on the accounts’ and has therefore not disclosed any sensitivities on the valuations.</p> <p><b>Risk</b></p> <p>There is a risk of non-compliance with accounting standards.</p> <p><b>Recommendation</b></p> <p>In future years, the Board should carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about the any sources of estimation uncertainty.</p>	<p>Sensitivity analysis on estimates of this nature will be carried out as recommended for future year-ends.</p> <p><b>Responsible officer:</b> Director of Finance and Performance Management</p> <p><b>Implementation date:</b> 31 March 2021</p>
<p>Paragraph Ref</p>		
<p>25</p>		

## Follow up of prior year recommendations

### Related parties

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Issue</b></p> <p>Management did not complete a review to identify transactions with identified related parties.</p> <p><b>Risk</b></p> <p>There is a risk that material related parties are not identified or disclosed in the accounts in future years.</p> <p><b>Recommendation</b></p> <p>The Board should 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>
Current status	Update	
<b>Closed</b>	No potential related parties were identified in 2019/20; therefore a review of transactions was not required.	

## Sickness absence

Initial rating	Issue & recommendation	Management comments
<b>Grade 2</b>	<p><b>Issue</b></p> <p>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 was scope for improvement.</p> <p><b>Risk</b></p> <p>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 desired 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</li> </ul>	<p>The focus and ongoing work of the Attendance Management Action group is:</p> <ol style="list-style-type: none"> <li>Leadership <ul style="list-style-type: none"> <li>Set and monitor baseline target of <math>\leq 6.80\%</math></li> <li>Overcome barriers to policy implementation</li> <li>Ongoing visibility and engagement of leadership team.</li> </ul> </li> <li>Training and Support <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>Policy Compliance <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>

Initial rating	Issue & recommendation	Management comments
	<p>ensure they are being sustained.</p> <ul style="list-style-type: none"> <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><b>Implementation date:</b> 31 December 2019</p>

Current status	Audit update	2019/20 management comments
<p><b>Ongoing</b></p>	<p>The sickness absence rate for 2019/20 was 6.25%; a significant reduction from 2018/19 (8.26%) and the lowest level reported by the Board since 2014/15.</p>	<p>A significant reduction in sickness absence rates is evident from the absence figures reported during 2019/20. That has been achieved through strong partnership working and continued focus on the management and monitoring of absence at both strategic and operational level across the organisation.</p> <p>Amendments were made to the Attendance Management Policy, in line with National Circular PCS(AFC)2019/2), to adopt and apply new nationally agreed trigger points to prompt and inform the formal discussion/review processes</p>

Current status	Audit update	2019/20 management comments
		<p>associated with sickness absence. These changes were introduced from 1 April 2019 and subsequent arrangements were also put in place to support transition to implementation of a new Once for Scotland Attendance Management Policy which went live on 1 March 2020.</p> <p>HR advisors continue to have regular attendance meetings with managers. An absence toolkit was developed and implemented to provide additional support for managers (subsequently updated and now accessible via the Once for Scotland policy portal).</p> <p>Briefing sessions were delivered for supervisors and line managers to support introduction of policy changes and the new Once for Scotland policy. Information sessions were also delivered in collaboration with Salus to increase knowledge and understanding of the EASY and Occupational Health services, and to support improvements in the EASY and OHS referral processes and associated case management and signposting interventions.</p> <p>Two ‘Special Bulletins’ focussing on attendance management were also issued during 2019/20 to support implementation of policy changes and ensure that all managers and staff were fully informed of policy aims, attendance standards and associated requirements and responsibilities.</p>

## Nursing overtime costs

Initial rating	Issue & recommendation	Management comments
<b>Grade 4</b>	<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.</p> <p>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><b>2017/18 Update</b></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></p> <p>Nursing and AHP Director</p> <p><b>Implementation date:</b> August 2018</p> <p><b>2018/19 Update</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>

Initial rating	Issue & recommendation	Management comments
		<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>For 2019/20:</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</p> <p><b>Implementation date:</b> 31 December 2019</p>

Current status	Audit update	2019/20 management comments
Ongoing	<p>The Board reported a reduction in nursing overtime in 2019/20. Specific nursing controls were introduced in 2019 with the aim of reducing overtime, including increasing the number of new start staff working on a five over seven day shift pattern and the use of pool staff to cover clinical activity. These controls are monitored by nursing with the aim of evaluating their impact and to provide meaningful</p>	<p>We have continued to alter the core shift pattern, through employing all new staff on a 5 out 7 day shift pattern . The benefit of this is an additional 208 shifts over a 12 month period.</p> <p>The pool staff have increased as a component of the overall workforce, with 31 pool staff now in post. This, and the point above, have resulted in increased workforce flexibility, and had a positive impact on</p>

Current status	Audit update	2019/20 management comments
	<p>comparisons for the future evaluation of the impact of the new clinical model. While the Board experienced a reduction in nursing overtime, it continued to be affected by nursing staffing recruitment challenges, sickness absence and clinical activity associated with high numbers of “exceptional circumstances” patients in its care.</p>	<p>resourcing and associated financial performance.</p> <p>Work has been undertaken to improve adherence to the predicted absence allowance, with a particular focus on making progress towards 15% allowance for annual leave. This work will continue into 20/21.</p> <p>At year end for 19/20, the Nurse staffing budget was £256,000 underspent.</p>

## Appendix 3: Audit differences

### Adjusted differences

We identified the following adjustment during the audit. We discussed this with management and agreed that it should be incorporated into the financial statements:

Adjusted difference	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
PPE: Land revaluation			9	
PPE: Buildings revaluation			825	
PPE: Buildings impairment reversal			652	
PPE: Buildings depreciation impairment reversal				146
SOCNE: Impairment		506		
Revaluation reserve				834
<i>Being adjustment to assets valuations in year based on indices provided by BNP Paribas Real Estate UK</i>				
Reduction in net expenditure as reported in the SOCNE (£'000)		(506)		

## Unadjusted differences

We identified the following potential adjustments to the financial statements during our audit. We have discussed these with management and have agreed that they will not be reflected in the financial statements on the basis of immaterial impact.

Unadjusted difference	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
PPE: Buildings revaluation				313
PPE: Buildings impairment reversal				247
PPE: Buildings depreciation impairment reversal			55	
SOCNE: Impairment	192			
Revaluation reserve			313	
<i>Being adjustment to asset valuations based on updated indices provided by BNP Paribas Real Estate UK (on average reduced from 1.8% to 1.1% for buildings)</i>				

Unadjusted difference	SoCNE		Balance Sheet	
	DR £'000	CR £'000	DR £'000	CR £'000
Other operating income		174		
Receivables written off during year	174			
Deferred income			174	
Provision for impairment of receivables				174
<i>Being adjustment to reflect income yet to be received by the Board for services provided</i>				
Increase in net expenditure as reported in the SOCNE (£'000)	192			



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