

# NHS GRAMPIAN

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland  
August 2022

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# Key messages

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## 2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.
- 3 The impact of Covid-19 continued to affect the accounting and auditing timetable for the annual report and accounts.

## Financial management and sustainability

- 4 NHS Grampian met all its financial targets and operated within its revised Revenue Resource Limit. The board received additional Covid-19 funding of £69 million which was largely used to fund the vaccination programme, test and protect activities and other staff costs.
- 5 The board has appropriate financial management arrangements in place and has improved standards for the prevention and detection of fraud and error.
- 6 In line with Scottish Government guidance, a one-year financial plan for 2021/22 was developed. The 2022/23 plan identified a funding shortfall of £20 million but based on the first quarter's financial results, the actual shortfall could be substantially more. The board is in discussions with Scottish Government regarding these matters.
- 7 Recognising the significant workforce recruitment challenges in Grampian and the high dependency on expensive agency staff, a single system approach has been adopted for the preparation of a three year workforce plan. This will shortly be submitted to Scottish Government.

## Governance, transparency, and value for money

- 8 NHS Grampian has reviewed the governance arrangements in place that support scrutiny of decisions made by the board. The board has regularly reviewed and adapted the arrangements it needed to support its continuing response to the pandemic but is now refocusing activities around delivering strategic objectives. Changes made in the year have been explained in the Governance Statement.

- 9** Covid-19 has had a major impact on the board's outpatient waiting lists and treatment time guarantees. There has however been significant improvement in children and young people's access to mental health services. The board has adapted its performance management framework to support the Clinical Prioritisation Framework and has implemented a single system approach to managing pressures intended to assist prompt decision making and direction of staff.
- 10** NHS Grampian has published remobilisation plans to address backlogs caused by the Covid-19 pandemic. Progress reports on the delivery of remobilisation plan objectives and milestones have been scrutinised on a regular basis.

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# Introduction

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1. This report summarises the findings from our 2021/22 audit of NHS Grampian. The scope of our audit was set out in our Annual Audit Plan presented to the 22 March 2022 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the body's annual report and accounts
- consideration of the wider dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#)

2. The main elements of our audit work in 2021/22 have been:

- an audit of NHS Grampian's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of NHS Grampian's key financial systems
- consideration of the four audit dimensions.

3. The global coronavirus pandemic continued to have a considerable impact on NHS Grampian during 2021/22 in the areas of the costs of healthcare provision, sickness absence levels, and the suspension of non-essential projects and activities.

## Adding value through the audit

4. We add value to NHS Grampian by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports and good practice guides.

5. We aim to help NHS Grampian promote improved standards of governance, better management, and decision-making and more effective use of resources.

## Responsibilities and reporting

6. NHS Grampian has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and

accounts that are in accordance with the accounts direction from the Scottish Ministers.

7. NHS Grampian is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the audit dimensions that frame the wider scope of public sector audit namely, financial management including the financial position and arrangements for securing financial sustainability, the suitability and effectiveness of corporate governance arrangements and the appropriateness and effectiveness of the performance management arrangements. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

9. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. Actions raised in respect of the 2020/21 audit remain relevant to 2021/22. While actions were progressed during the year, the impact of Covid-19 continued to cause disruption and revision of Scottish Government timescales. Where relevant, reference is made to the previous years' actions within the appropriate section of the report.

## Auditor Independence

11. Auditors appointed by the Auditor General must comply with the [Code of Audit Practice 2016](#) and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £201,300, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

## **Audit appointment from 2022/23**

14. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are usually appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2021/22 was a one year extension and is the last year of the current audit appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From next year (2022/23) Grant Thornton UK LLP will be the appointed auditor for NHS Grampian. We will work closely with the new auditors to ensure a well-managed transition.

16. We would like to thank board members, audit committee members, executive directors, and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

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# 1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance.

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## Main judgements

Our audit opinions on the annual accounts are unmodified.

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

The impact of Covid-19 continued to affect the accounting and auditing timetable for the annual report and accounts.

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## Our audit opinions on the annual report and accounts are unmodified

17. The board approved the annual report and accounts for the year ended 31 March 2022 on 4 August 2022. As reported in the independent auditor's report:

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

## The impact of the Covid-19 pandemic continued to affect the audit of the annual report and accounts

18. The reporting deadline for NHS accounts is 31 August 2022, which remains an extension from the pre-pandemic deadline of 30 June. The Scottish Government however encouraged a return to the deadline of 30 June for the submission of health board audited annual report and accounts. We had planned to conclude the audit by 31 August 2022 which was a similar timetable

to the previous year. In response to the Scottish Government's deadline announcement, we agreed with NHS Grampian to aim for board approval of the accounts on 4 August 2022. This would conclude the audit around a month earlier than the previous year and provide an initial step change in returning to a 30 June submission date

19. The unaudited annual report and accounts were received in line with our agreed audit timetable on 16 May 2022. The delivery of the audit was however affected by the ongoing impact of Covid-19. Competing demands on finance staff, the impact of changes in staff and the level of absences as a result of the virus reduced the capacity of the team to respond to queries as promptly as they had done in previous years.

20. While we received a comprehensive pack of working papers to support the annual report and accounts, there were initial gaps in relation to reconciliations of income and expenditure between the NHS board and the three integration joint boards (IJBs) in Grampian.

21. We also experienced some delays in obtaining supporting evidence for samples selected. In particular, there were a number of communications before we collated all the payroll evidence to support the selected cases.

22. Taking cognisance of clinical restrictions and pressures, we limited our physical verification of plant and machinery assets and at a national level, we have not yet resumed annual activity to verify title deeds.

23. Overall, we did observe some reduction in the quality of the working papers package this year. We continued to work flexibly with the finance team and held regular progress meetings which helped the audit to progress and enabled us to conclude the audit in line with the agreed timetable.

## Overall materiality remains unchanged at £22 million

24. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

### Exhibit 1 Materiality values

| Materiality level   | Amount   |
|---|----------|
| <b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year.   | £22m     |
| <b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality | £13m     |
| <b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those  | £250,000 |

| Materiality level   | Amount |
|---|--------|
| charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality subject to a maximum limit of £250,000 |        |

Source: Audit Scotland

## We have significant findings to report on the annual report and accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings arising from the audit to those charged with governance. This includes any matters which arose as a result of guidance issued by the Scottish Government after the draft annual report and accounts were prepared and submitted for audit. We are also required to report on the qualitative aspects of the body's accounting practices. The significant findings in respect of the 2021/22 annual report and accounts are summarised in [Exhibit 2](#).

### Exhibit 2

#### Significant findings from the audit of the financial statements

| Issue   | Resolution  |
|---|---|
| <p><b>1. Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) provision balance</b></p> <p>All NHS boards participate in the CNORIS scheme which is administered by the Scottish Government and allows for risk pooling of legal claims in relation to clinical negligence and other risks. It works in a similar manner to an insurance scheme.</p> <p>The Annual Reports and Accounts includes a provision in relation to NHS Grampian's liability for participating in the scheme, based on the Scottish Government's assessment of the board's share of the national obligations at 31 March 2022. The movement in this liability between years is charged against the board's 'Non Core Revenue Resource Limit'. In May 2022, the Scottish Government notified boards of an adjustment to the total national obligations figure. This resulted in the value of the board's share of the national obligations at 31 March 2022 decreasing by £792,000.</p> | <p>This information was provided by the Scottish Government after the annual report and accounts were submitted for audit. Management has reflected the adjustment in the audited annual report and accounts.</p> |
| <p><b>2. Personal Protective Equipment (PPE) and testing kits</b></p> <p>NHS NSS distributed PPE and testing kits to</p>  | <p>The financial statements have been adjusted to reflect an increase in PPE and testing kits of £14.0 million (being</p>   |

| Issue  | Resolution   |
|--|--|
| <p>health boards which was funded by the Scottish Government. The total amount allocated to NHS Grampian was £8.553 million. This was included in medical supplies under Note 3b in the draft accounts but should be shown in a separate line (still within Note 3b) as PPE and testing kits.</p> <p>In June 2022, the Scottish Government provided late guidance advising boards that testing kits donated by the UK Government should also be shown as part of PPE and testing kits with a corresponding entry to Donation income. NHS Grampian's share amounted to £5.450 million.</p>  | <p>£8.5 million for supplies funded by the Scottish Government and £5.5 million for testing kits supplied by the UK Government) and an increase in operating income £5.5 million.</p> <p>There is no impact on the net expenditure reported for the year as a result of these adjustments.</p> <p>The information on the cost of testing kits provided by the UK Government was made available to the board after the annual report and accounts were submitted for audit.</p> |
| <p><b>3. Disaggregation of other operating expenses</b></p> <p>The draft accounts showed other operating expenses as one figure of £238.4 million. With one exception, this was the most significant amount within the Note, and consequently, further analysis of the amount was recommended.</p>   | <p>Other Operating Expenses has been reduced to £85.2 million and individual material amounts have been separately disclosed within Note 3b in the revised accounts e.g. depreciation, clinical negligence, utilities and property related costs, etc.</p> <p>There is no impact on the net expenditure reported for the year as a result of these adjustments.</p>  |
| <p><b>4. Untaken leave accrual</b></p> <p>The accrual in respect of untaken leave has increased from £16.7 million last year to £18.9 million this year.</p> <p>Improved methodologies were implemented for both Agenda for Change (AfC) staff and medical staff. We considered the assumptions used in the estimate in accordance with ISA (UK) 540. Following review of the overall calculation, assumptions and supporting working papers, we concluded that in principle the approach taken was reasonable.</p> <p>However, our verification of the detailed calculations identified some differences. As a result of Covid-19, the calculation includes a significant accrual carried forward from 2020/21 which had not been adjusted to remove untaken leave in respect of staff who left in 2021/22 who had been the payroll in March 2021. This identified an overstatement in the accrual of £1.7 million.</p> <p>The calculations for 2021/22 leave entitlement and leave taken in the year were based on data from the eESS workforce system which was</p> | <p>Due to the level of the amounts involved, this has been included in the schedule of unadjusted misstatements included at Appendix 2.</p> <p>A recommendation has also been made for further improvements in the calculation methodology for next year's accrual and this is included in the action plan at Appendix 1.</p>  |

| Issue  | Resolution  |
|--|---|
| <p>implemented by the board in October 2021. Based on a sample of cases, a number of errors were identified. These were extrapolated across the population and this produced a potential understatement in the accrual of £1.3 million.</p> <p>The net effect of our audit work is therefore an overstatement in the accrual of £0.3 million.</p>  |   |
| <p><b>5.Purchase Order Processing (POP) accrual</b></p> <p>Included within trade and other payables is an accrual of £27 million representing the balance on the POP system at 31 March 2022. This equates to the value of orders where goods have been received by the year end but the invoice has not yet been received for payment. Normally, we verify this amount by comparing it with the invoices processed in the new financial year (which relate to the previous year). Audit work in respect of the 2021/22 accrual identified that approx. £10.4 million of the POP balance at 31 March 2022 was still outstanding at 30 June 2022. It seemed unlikely that there would be such a delay by suppliers in submitting their invoices for payment and therefore further explanation was sought.</p> | <p>Following further investigation by the finance team, approx. £5m of the £10.4 million has now been explained. For example, invoices with price variances are routinely received which need to be resolved with suppliers. Other explanations include invoices being in dispute and cases where the invoice has been received and paid but was not matched in the POP system. It also appears that for some suppliers, invoices are genuinely awaited and these are being followed up by services.</p> <p>The unexplained balance is currently £5.4 million and this includes a high volume of low value items. The finance team are continuing to investigate this matter for operational purposes.</p> <p>For the purposes of the audit of the accounts, we have concluded with Finance that the unexplained amount should be regarded as cancelled orders and be deleted from the system. This would reduce expenditure and accruals by £5.4m.</p> <p>Due to the level of the amount involved, this has been included in the schedule of unadjusted misstatements included at Appendix 2.</p> <p>A recommendation for improvement has also been made and is included in the action plan at Appendix 1.</p> |
| <p><b>6.Performance report</b></p> <p>In common with previous years the performance/governance report is comprehensive and is in line with reporting requirements. A key aim of the performance report is to tell the board's story for the financial year and introduce key</p>   | <p>Additional narrative has been included in the audited annual report and accounts to appropriately reflect these matters.</p>   |

| Issue   | Resolution |
|---|------------|
| <p>amounts within the annual accounts.</p> <p>A key element of Grampian’s 2021/22 story is the successful delivery of the Covid-19 vaccination programme. Given the number of staff involved and the related costs, we recommended that this should feature within the performance report.</p> <p>Also, the level of reserves held by IJBs at 31 March 2022 continued to rise as a result of additional funding from Scottish Government. More explanation for the increase in reserves and plans for their future use would assist the lay reader of the annual report and accounts.</p> |            |

Source: Audit Scotland

26. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks identified in our 2021/22 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed. The audit findings on wider scope risks relating to leadership, financial sustainability and performance are summarised in [Appendix 3](#). These risks influenced our overall audit strategy and the allocation of staff resources to the audit

### Exhibit 3

#### Identified significant risks of material misstatement in the financial statements

| Audit risk   | Assurance procedure  | Results and conclusions  |
|--|--|--|
| <p><b>1. Management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management’s ability to override controls that otherwise appear to be operating effectively.</p> | <p>Assessed the controls over journal entry processing.</p> <p>Also, testing of journal entries with a focus on significant risk areas, including year-end and post-closing entries.</p> <p>Assessed the methods and underlying assumptions used to prepare accounting estimates.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focused testing of accounting accruals and</p> | <p><b>Conclusion: Satisfactory</b></p> <p>The completion of the assurance procedures did not identify any evidence of management override of controls.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|------------|---------------------|-------------------------|
|            | prepayments.        |                         |

## Other areas of audit focus

27. In addition, we identified other areas in our Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. We did not consider these to represent significant risks but they were identified as matters to be kept under review during the audit. These areas of specific audit focus were:

- **Payments to primary care contractors:** This is a material and complex account area administered for all boards by NHS National Services Scotland (NSS). NHS Grampian incurs annual payments of around £250m. We have drawn assurance for this area from the service auditor's unqualified opinions in respect of financial year 2021/22.
- **Estimates and judgments:** Valuation of the board's land and buildings and estimates of clinical negligence claims are both material areas and involve a significant degree of subjectivity which represents an increased risk of misstatement in the financial statements. We placed reliance on the work of experts – the District Valuer in respect of the assumptions used to revalue the estate and NHS Scotland Central Legal Office (CLO) for the professional judgement it applies in providing estimates for the clinical and medical negligence claims. We have no matters to draw to your attention in this regard.
- **Reconciliation of IJB transactions:** Transactions between the board and the three IJBs are material amounts. In the previous year, the board experienced a delay in agreeing year end balances and reconciliations with IJBs which created some uncertainty and delay in concluding the board's audit. Some delay was also experienced as part of this year's audit but all significant balances have now been confirmed as part of the audit process.
- **Change in pharmacy system:** Changes to systems and processes come with a risk that design and operation of controls may be ineffective leaving the board susceptible to errors and/or fraud. Based on audit procedures performed following the implementation of a new system in November 2021, there are no matters which we need to bring to your attention.

## Identified misstatements of £624,000 were adjusted in the accounts

28. Misstatements identified during the audit which were amended in the accounts had the overall effect of reducing net expenditure on the consolidated statement of comprehensive net expenditure and increasing net assets by £624,000. The main adjustments related to an amendment to the CNORIS charge of £792,000 (Refer Exhibit 2, item 1). Other adjustments related to the endowment accounts (£146,000) and the preparation of the respective IJB unaudited accounts (£314,000)

29. In addition, there were a number of reclassifications of expenditure within Note 3b to the accounts which do not impact on the reported net expenditure figure.

30. Management do not propose to adjust for the misstatements set out in [Appendix 2](#), as the amounts are not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to reduce net expenditure on the consolidated statement of comprehensive net expenditure by £5.7 million with a corresponding increase in net assets.

31. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

32. We have reviewed the nature and causes of these misstatements and concluded that they were isolated in nature and identified in their entirety.

## 2. Financial management

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

### Main judgements

NHS Grampian met all its financial targets and operated within its revised Revenue Resource Limit. The board received additional Covid-19 funding of £69 million and this was largely used to fund the vaccination programme, test and protect activities and other staff costs.

The board has appropriate financial management arrangements in place and has improved standards for the prevention and detection of fraud and error.

### NHS Grampian operated within its Revenue Resource Limit (RRL) of £1,387 million

33. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within.

34. As part of the NHS remobilisation exercise, boards estimated the financial impact of the pandemic. These estimates were kept under review and the continuing financial impact of the pandemic was reported in published plans to the Scottish Government on a regular basis. Throughout 2021/22, additional non-recurring funding allocations were therefore provided to boards to support the ongoing response to the Covid-19 pandemic.

35. [Exhibit 4](#) shows that the Board operated within its limits during 2021/22. Actual expenditure was lower than forecast and as a result NHS Grampian reported an underspend of £0.130 million.

### Exhibit 4

#### Performance against resource limits in 2021/22 Example

| Performance against resource limits set by SGHSCD | Resource Limit<br>£m | Actual<br>£m     | Underspend<br>£m |
|---|----------------------|------------------|------------------|
| Core revenue resource limit                       | 1,358.066            | 1,357.936        | 0.130            |
| Non-core revenue resource limit                   | 28.485               | 28.485           | 0                |
| <b>Total revenue resource limit</b>               | <b>1,386.551</b>     | <b>1,386.421</b> | <b>0.130</b>     |

| Performance against resource limits set by SGHSCD | Resource Limit<br>£m | Actual<br>£m     | Underspend<br>£m |
|---|----------------------|------------------|------------------|
| Core capital resource limit                       | 64.166               | 64.166           | 0                |
| Non-core capital resource limit                   | 1.002                | 1.002            | 0                |
| <b>Total capital resource limit</b>               | <b>65.168</b>        | <b>65.168</b>    | <b>0</b>         |
| <b>Cash requirement</b>                           | <b>1,434.610</b>     | <b>1,434.610</b> | <b>0</b>         |

Source: NHS Grampian Annual Report and Accounts 2021/22

## There was a significant financial impact due to Covid-19

36. In June 2021, the board approved NHS Grampian's draft annual operating plan which set an overall budget for 2021/22 of £1,115 million. Remobilisation plans revised those financial estimates and were regularly submitted to the Scottish Government. [Exhibit 5](#) sets out Grampian's Covid-19 related expenditure and the additional funding allocations.

### Exhibit 5

#### Covid-19 costs compared to additional funding allocations

|                                 | Total Funding<br>Received (£m) | Total Expenditure<br>(£m) | Unspent balance at<br>31 March 2022<br>(£m) |
|---------------------------------|--------------------------------|---------------------------|---|
| <b>NHS Board</b>                |                                |                           |   |
| Covid-19 additional allocations | 68.8                           | 68.8                      | <b>0.0</b>                                  |
| <b>Health and Social Care</b>   |                                |                           |   |
| Covid-19 additional allocations | 62.4                           | 25.5                      | <b>36.9</b>                                 |

Source: NHS Grampian Annual Report and Accounts 2021/22 and Financial Performance Return Period 13 2021/22

37. The additional expenditure incurred due to Covid-19 amounted to £68.8 million and included:

- Covid-19 vaccination programme £22.8 million
- Additional equipment and maintenance £12.5 million
- Contact tracing and testing £10.5 million
- Additional staff costs £10.3 million
- Additional infection, prevention and control costs £4.9 million

38. The health and social care partnerships spent £25.5 million of their £62.4 million funding allocation leaving an unspent balance of £36.9 million. As well as incurring expenditure in the following areas, health and social care partnerships experienced a reduction in their income from services of £1.5 million:

- Social care provider sustainability payments £12.4 million
- Additional staff costs - £2.1 million
- Remobilisation costs - £1.9 million
- Additional capacity in the community - £1.7 million
- Community hubs - £1.7 million.

## IJB outturn and impact on NHS Grampian

39. In 2020/21, the three Integration Joint Boards (IJB) reported significant surpluses for the first time and this was mainly due to unspent funding from the Scottish Government for a range of earmarked purposes including support for Covid-19 recovery and remobilisation. A similar scenario occurred in 2021/22 with the IJBs concluding the year with further unspent funding of £36.9 million which has resulted in a significant increase in their reserves at 31 March 2022. [Exhibit 6](#) shows that approx. 40% of IJB reserves relate to Covid-19 related earmarked balances.

### Exhibit 6

#### IJBs surpluses and reserves

| IJB                  | Reserves<br>2021/22<br>£m | Covid<br>Balance<br>incl. in<br>2021-22<br>Reserves<br>£m | Reserves<br>2020/21<br>£m | Covid<br>Balance<br>incl. in<br>2020-21<br>Reserves<br>£m | Impact<br>on group<br>reserves<br>2021/22<br>£m | Impact on<br>group<br>reserves<br>2020/21<br>£m |
|----------------------|---------------------------|---|---------------------------|---|---|---|
| Aberdeen City<br>IJB | 51.39                     | 19.74   | 18.24                     | 2.53  | 25.70   | 9.12  |
| Aberdeenshire<br>IJB | 49.06                     | 20.41   | 20.57                     | 7.04  | 24.53   | 10.28   |
| Moray IJB            | 17.02                     | 9.02  | 6.34                      | 2.73  | 8.51  | 3.17  |
|                      | <b>117.47</b>             | <b>49.17</b>  | <b>45.15</b>              | <b>12.30</b>  | <b>58.74</b>                                    | <b>22.57</b>                                    |

Source: NHS Grampian Annual Report and Accounts 2021/22

40. The IJBs' 2021/22 surplus for the year is £72.34 million which has increased the balance held on reserve from £45.15 million to £117.47 million. The IJBs received a range of specific funding from the Scottish Government during the year but the main element related to Covid-19 recovery and remobilisation.

41. In February 2022, the Scottish Government allocated a final instalment of 2021/22 funding of £619 million for IJBs of which Grampian's share was £55.7 million. This funding was received late in the financial year and therefore it could not all be spent before 31 March 2022. In such cases, the Scottish Government indicated that funds should be carried forward to 2022/23 by IJBs for investment in services impacted by the pandemic.

### **Capital Resource Limit (CRL) was reduced in 2021/22 as major capital projects encountered delay**

42. The Capital Resource Limit for 2021/22 was £65.2 million and this was enhanced by asset disposals and other revenue sources of funding to deliver a total investment of £78.9 million in infrastructure during the year. Major investments include Baird Family and Anchor Centre (£42.5 million), essential medical equipment (£22.5 million) and capital spent relating to backlog maintenance and compliance with statutory standards (£10.4 million).

43. The original infrastructure investment programme included in the Financial Plan amounted to £91.2 million. Slippage of £12.3 million was experienced and this largely related to the Baird Family and Anchor Centre projects due to materials and labour shortages and the impact of Covid-19.

44. The five-year capital programme 2022-27 includes a total investment of £303 million of which £164 million relates to the ongoing Baird and Anchor projects. Following a comprehensive review of the impact of recent abnormal market conditions, the forecast for these projects has been increased and a funding agreement has been reached with the Scottish Government.

### **Financial systems of internal control are operating effectively**

45. From our review of the systems of internal control and testing the operating effectiveness of key controls, we did not identify any weaknesses which could affect NHS Grampian's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

### **Positive assurance in respect of shared services**

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

47. NHS Grampian use the services provided by both NSS and Ayrshire and Arran. We have considered the assurances provided in the service auditors' assurance reports along with any associated external audit reports. In all cases, unqualified opinions were provided by the service auditors in respect of 2021/22 and as a result, there are no significant findings to draw to your attention.

## Standards of conduct for prevention and detection of fraud and error are appropriate

48. A Counter Fraud Steering Group has been established to ensure effective executive oversight of the expanding counter fraud agenda and lead the implementation of the government functional standards across NHS Grampian. The Steering Group concluded that the board is in a good position with regards to a fraud response. More proactive measures are to be implemented however so that Grampian is better placed to prevent fraud. The board continues to have good engagement with Counter Fraud Services, benefits from their training and advice and progress reports are routinely considered by the Audit Committee.

49. National Whistleblowing Standards came into force for all NHS services in April 2021. NHS Grampian took the opportunity to encourage staff to report any concerns of public interest. As a result, there was an increase in the number of concerns raised and there was good feedback about the process with staff generally indicating good experiences of the process. Again there is regular reporting to the board on this matter.

50. The board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place. In our view, there are appropriate arrangements in place.

## Increasing capacity within the finance team

51. We previously highlighted our concerns in relation to capacity and succession planning within the finance team. Following the retirement of one of the senior team in January 2021, a number of positive changes have been made. There will be further significant change in the next twelve months with the appointment of a new Director and the retirement of the Assistant Director.

52. Following a redesign of the support function for the Endowment funds, appointments have been made into two senior roles, a lead officer and a finance and business systems manager. This dedicated resource will reduce the resource commitment required from the finance team.

53. The service is aware of the capacity issues within the team and on the horizon and is taking steps to fill vacancies promptly and manage resources as effectively as possible.

## ICT arrangements

54. Cyber security arrangements in NHS Grampian are satisfactory and business continuity arrangements are in place. Based on the Network and Information Systems review recently reported to the Audit Committee, the board had made exceptional progress with improved compliance status and a significant decrease in the risk exposure of the organisation. The board now has 68 outstanding recommendations, compared with 125 in the previous year. Cyber security was also the focus of one of the board's development sessions in spring 2022.

55. NHS Grampian has a business continuity plan, and the civil contingency unit is responsible to perform regular plan reviews. Updates on IT disaster recovery for critical systems are provided to the Audit Committee.

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## 3. Financial sustainability

Financial sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services.

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### Main judgements

In line with Scottish Government guidance, a one-year financial plan for 2021/22 was developed. The 2022/23 plan identified a funding shortfall of £20 million but based on the first quarter's financial results, the actual shortfall could be substantially more. The board is in discussions with Scottish Government regarding these matters.

Recognising the significant workforce recruitment challenges in Grampian and the high dependency on expensive agency staff, a single system approach has been adopted for the preparation of a three year workforce plan. This will shortly be submitted to Scottish Government.

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### Cash terms increase in revenue funding but real terms reduction

56. Core revenue funding (excluding additional Covid-19 funding) to NHS Grampian in 2021/22 increased by 6.2 per cent in cash terms and decreased by 1.2 per cent in real terms when compared to 2020/21 ([Exhibit 7](#)) with £68.8 million extra for Covid-19 in 2021/22 (£69.9 million in 2020/21).

57. The current 2022/23 Scottish budget includes a further rise in baseline funding for NHS Grampian of £20.9 million (2.0 per cent).

### Financial plans for financial years 2021/22 and 2022/23 have been single year plans

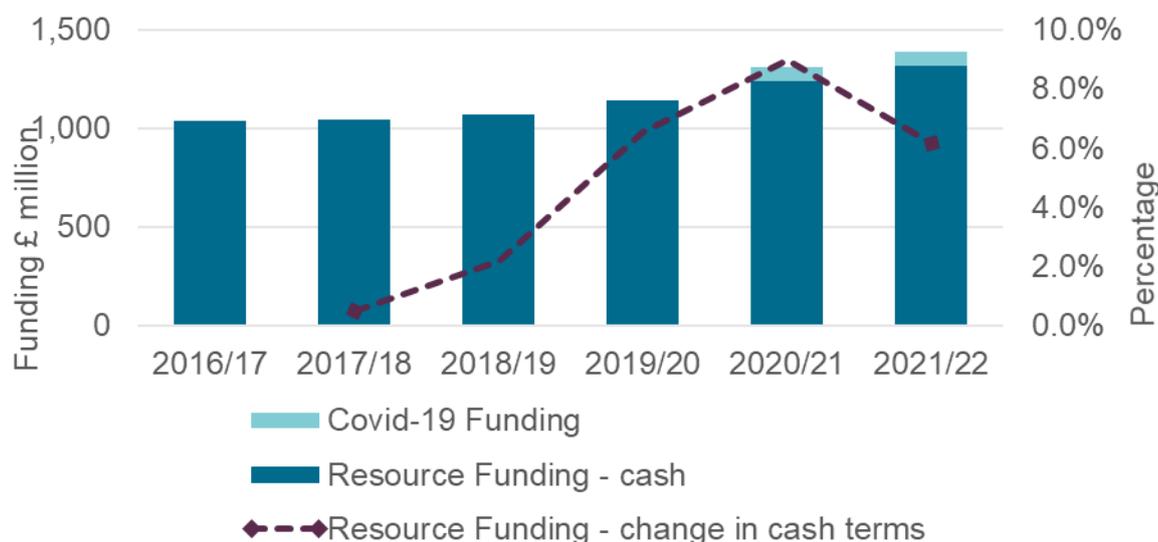
58. The Finance Plan for 2022/23 does not present a break-even position. The plan projects an overspend of around £20 million and this is the first time that NHS Grampian has submitted an unbalanced Finance Plan to the Scottish Government. The board identified the following contributing factors:

- In the last two years, the Scottish Government has supported NHS boards in responding to Covid-19 by fully funding all the additional costs incurred. With the focus on managing the Covid-19 response, little attention has been given to reducing costs and delivering savings. With increased operating costs in the current economic environment, the potential to deliver savings is much more challenging.
- It is no longer sustainable to meet recurring overspends from non-recurring slippage as was the case in the past.

- The 2022/23 budget settlement can absorb the impact of the expected pay award but does not meet other emerging pressures e.g. medical supplies, energy costs, CNORIS, maternity services in Moray.

## Exhibit 7

Cash and real terms funding to NHS Grampian in 2021/22 has risen in cash terms equivalent to 6.2% increase from last year (9% increase in 2020/21).



Source: NHS Grampian Annual Report and Accounts / Audit Scotland

59. Forecasts in the financial plan are based on several assumptions including a base uplift of 2% including pay award at same level and a 1% cost reduction target which is higher than the rate delivered in previous years. The plan also assumes that all additional Covid-19 and remobilisation costs incurred by Grampian will be fully funded by the Scottish Government.

## Medium- and long-term financial plans are uncertain

60. The requirement to produce three-year financial plans as part of the medium-term financial framework was paused due to the pandemic. NHS boards were asked to complete a one-year plan for 2022/23 by end of March 2022. NHS Grampian expects to submit a three-year financial plan in August 2022 in line with Scottish Government requirements.

61. NHS Grampian's budget shortfall was identified as £20 million. Quarter one financial reporting at 30 June 2022 shows an overspend of £10 million. If the service pressures experienced during quarter one continue for the remainder of the financial year, the outturn financial position is likely to exceed the initial estimated shortfall of £20 million. The Scottish Government are being kept informed but there is no clear route forward at the moment. In pre-Covid times, a brokerage loan from the Scottish Government might have been a likely option in such circumstances. We understand that this is not being actively discussed as a potential option at the moment. Several boards are anticipating shortfalls in 2022/23 and therefore the Scottish Government may be considering wider options.

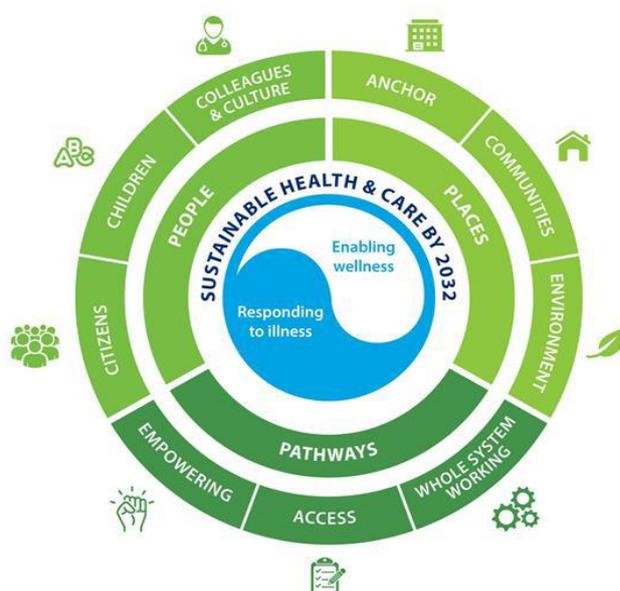
62. IJB reserves at 31 March 2022 amount to £117m of which £40% relates to earmarked balances for Covid-19 costs and supporting the continued impact of the pandemic (Exhibit 6). The Scottish Government letter dated February 2022 identified funding for IJBs to support the continuing impact from the pandemic. Reference was made to the backlog of demand and increase in unmet need as a result of the disruption. The funding would assist bodies to keep people in the community and therefore avoid unplanned admissions and the impacts on delayed discharges. This therefore suggests single system working to ensure the effective use of resources. We understand that there have been early discussions in Grampian on the use of these funds and that it is likely each IJB will make their own decisions in due course.

### NHS Grampian has approved its 'Plan for the Future'

63. In June 2022, NHS Grampian approved its 'Plan for the Future' (Exhibit 8) which sets out its strategic direction for the period 2022-28 building on the Grampian Clinical Strategy 2016-21. The strategic intent outlined in the Plan for the Future is organised under three headings of People, Places and Pathways and will be supported by a suite of three-year documents including a delivery plan, financial strategy and a workforce plan.

## Exhibit 8

### NHS Grampian's Plan for the Future



64. The Plan has been developed against the following backdrop:

- *The pandemic has had a significant impact on our population, workforce, system and our delivery of services. This in turn has impacted on staff health and wellbeing and exacerbated a backlog of care and long waiting times for treatment which we must continue to address as a matter of priority.*
- *The past two years have emphasised the fragile sustainability of the health and social care system which was evident pre-pandemic.*

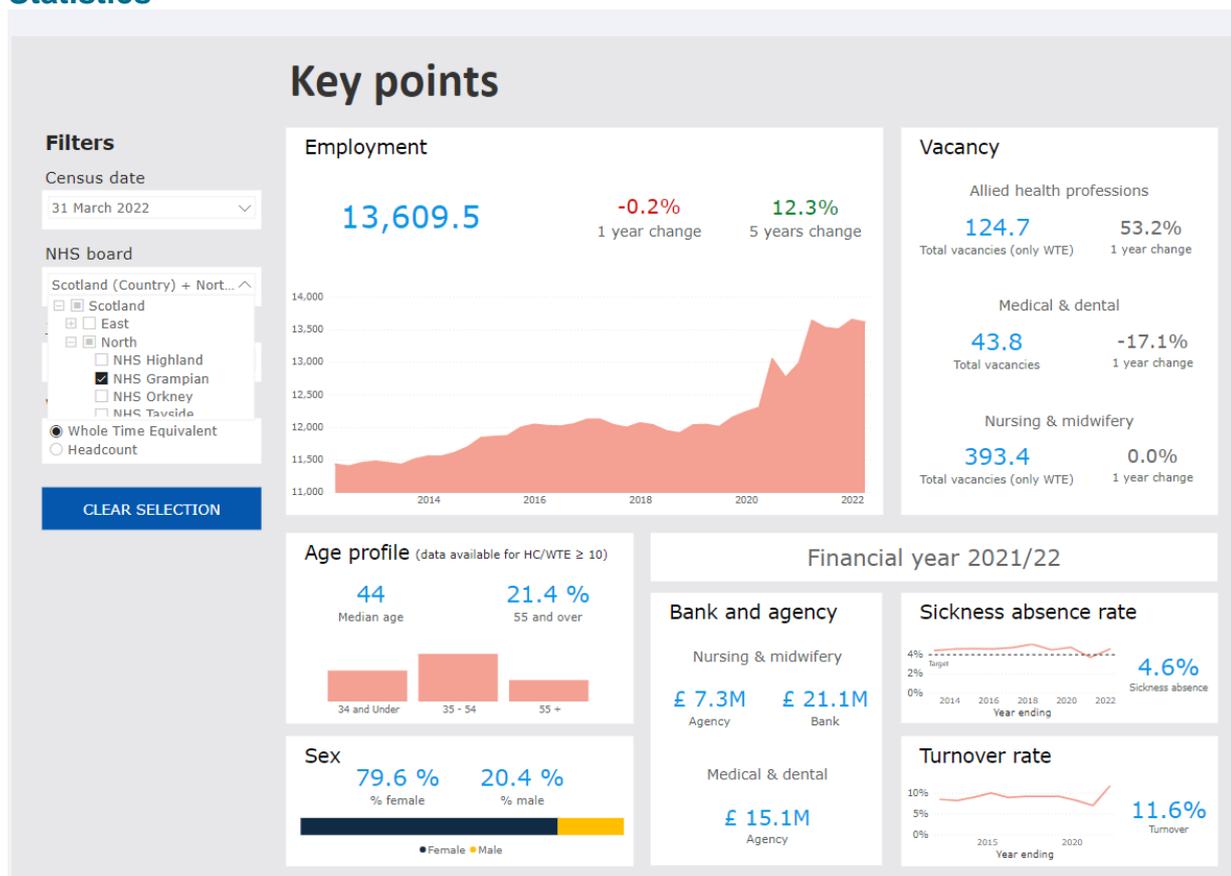
- *The Plan for the Future helps to set a direction where resilience will ensure the ability to continue to deliver services will be in place regardless of the demands faced through unscheduled pathways.*

## Sustainable integrated workforce planning is crucial

65. Scottish Government expected health boards and health and social care partnerships to develop and publish a three year integrated workforce plan by April 2021. This was intended to build on the national workforce plan published in December 2019. Due to the pandemic however, the deadline was deferred to March 2022 but boards were required to submit an interim workforce plan. NHS Grampian submitted its interim plan in May 2021.

66. The timetable was further revised with boards now required to submit draft plans by 31 July 2022 and final submissions by 31 October 2022. Workforce planning leads in Grampian have been meeting to develop a consistent approach across the NHS board and three health and social care partnerships.

## Exhibit 9 Key Workforce Statistics



Source: NHS Scotland Workforce Turas Data Intelligence

67. From October 2021, the board recruited a significant number of additional staff on a range of contracts to deliver the Covid-19 vaccination programme. [Exhibit 9](#) shows that the whole time equivalent staff number was 13,610 at

31 March 2022 (excluding doctors in training). Although this was a slight decrease on the previous year (0.2%), it has grown by 12.3% within the past five years.

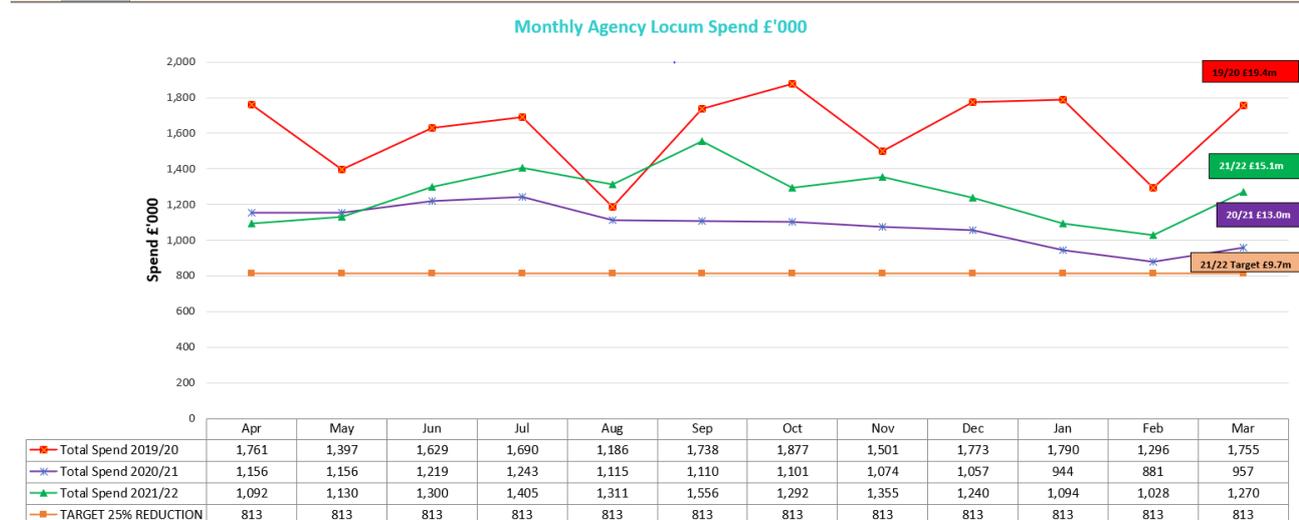
68. We highlight the following observations from our review of workforce statistics at 31 March 2022 (compared with 31 March 2021):

- Vacancies rose by 53% in Allied Health Professionals, reduced by 17% in Medical and Dental and remained constant in Nursing and Midwifery.
- Sickness absence (excluding Covid-19 absences) increased from 3.7% in 2020/21 to 4.6% in 2021/22. By comparison the national rate rose from 1.0% to 5.7%.
- Staff turnover rose from 7% to 11.6%. This was higher than the national picture which increased from 5.2% to 8.1%. Approx. 1,500 WTE staff left in the year compared with 817 WTE the previous year. A number of fixed term contracts hired to assist with the Covid-19 response were concluded.

69. The national spend on medical agency locum staff rose by 17% over the past year to £102 million. NHS Grampian's expenditure amounted to £15 million, the highest spend by any health board in Scotland. [Exhibit 10](#) shows that expenditure increased by 16% over the previous year and this was 56% higher than target. Due to ongoing recruitment difficulties, Grampian has relied on the use of agency locum staff for many years. New initiatives prior to the pandemic and the pausing of services during the pandemic reduced the use of agency locums but with the remobilisation of services, there has been an increasing need for agency staff. The 2022/23 Financial Plan includes targets to deliver 20% savings on locum expenditure but this is set in the context that safe service delivery needs to be carefully balanced with the associated costs.

## Exhibit 10

### Cost of medical locums have risen in 2021/22



Source: NHS Grampian

70. With ongoing significant financial and workforce challenges, it is crucial that NHS Grampian's integrated workforce plan effectively captures these issues

and demonstrates the resources needed to deliver the operational plans underpinning its 'Plan for the Future'.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information.

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## Main judgements

NHS Grampian has reviewed the governance arrangements in place that support scrutiny of decisions made by the board. The board has regularly reviewed and adapted the arrangements it needed to support its continuing response to the pandemic but is now refocusing activities around delivering strategic objectives. Changes made in the year have been explained in the Governance Statement.

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71. The system leadership model was changed in summer 2021 when a range of Portfolio Leads were appointed who are directly accountable to the Chief Executive and are members of the Chief Executive Team. This new model of leadership has been developing during the year. It is designed as a three-tier model, with a daily, weekly and fortnightly structure that brings key managers together at different levels, to ensure oversight, appropriate decision making and learning and development.

## Governance arrangements continue to be appropriate

72. We previously reported on the changes in governance implemented by the board in response to Covid-19. These were kept under review by the board during 2021/22 and appropriately covered in the Governance Statement within the Annual Report and Accounts. In particular, the board agreed:

- to continue with virtual board meetings and seminars publishing papers and minutes on the website and facilitating press and public attendance by joining the virtual meeting as observers.
- where committee meetings had been paused, a return to pre-Covid arrangements, allowing for all meetings to be held virtually with a formal agenda and papers, and an assurance report to the board after each meeting.

73. The board's Assurance Framework was reviewed and updated and approved by the board in June 2022. This included a comprehensive review of the terms of reference for each committee to ensure they continue to be fit for purpose, fit with existing management arrangements and that they are aligned with the strategic objectives set out in the board's new Plan for the Future.

74. During the Covid-19 pandemic, board committees met regularly to obtain assurance on the operational response to the pandemic under agile governance

arrangements in operation since March 2020. With the adoption of Plan for the Future, it was deemed appropriate to review the structures supporting the Board to support a refocus on strategic priorities and assurance on performance and risk management rather than the operational response to the pandemic.

75. In autumn 2021, work was undertaken to explore the board's culture and governance frameworks to reach a common understanding on purpose and culture. Further work is planned on culture and diversity in line with the principles of good governance set out in NHS Scotland's Blueprint for Good Governance

76. Important work also continues to progress in other aspects of governance including:

- Continuing to develop and embed risk management arrangements
- The recent decision to extend the remit of the Audit Committee by establishing an Audit and Risk Committee which will have formal responsibility for overseeing the board's risk management arrangements
- More robust assurances being provided to the board by the PAIR working groups
- The re-tendering of the internal audit service during the year and the re-appointment of PricewaterhouseCoopers as the board's internal auditors.

77. We have reviewed the board's arrangements and concluded that they continue to be appropriate

## **Openness and transparency**

78. Openness and transparency is how an organisation operates and makes decisions and ensures that the public have access to understandable, relevant, and timely information about board decisions and how it is using resources such as money, people, and assets.

79. NHS Grampian continues to publish board minutes and agenda papers on its website. All key decisions are therefore available for public viewing. Also on the website is the revised Code of Conduct for Members of Devolved Public Bodies which was formally adopted by the board in June 2022.

80. We noted that however, that the Register of Interests of Board Members as published on website was last updated in October 2020. Although members have regularly updating their register form every six months, there has been a delay in updating the website record and this prevents public access to the information.

# 5. Value for money

Using resources effectively and continually improving services.

## Main judgements

Covid-19 has had a major impact on the board's outpatient waiting lists and treatment time guarantees. There has however been significant improvement in children and young people's access to mental health services.

The board has adapted its performance management framework to support the Clinical Prioritisation Framework and has implemented a single system approach to managing pressures intended to assist prompt decision making and direction of staff.

NHS Grampian has published remobilisation plans to address backlogs caused by the Covid19 pandemic. Progress reports on the delivery of remobilisation plan objectives and milestones are scrutinised on a regular basis.

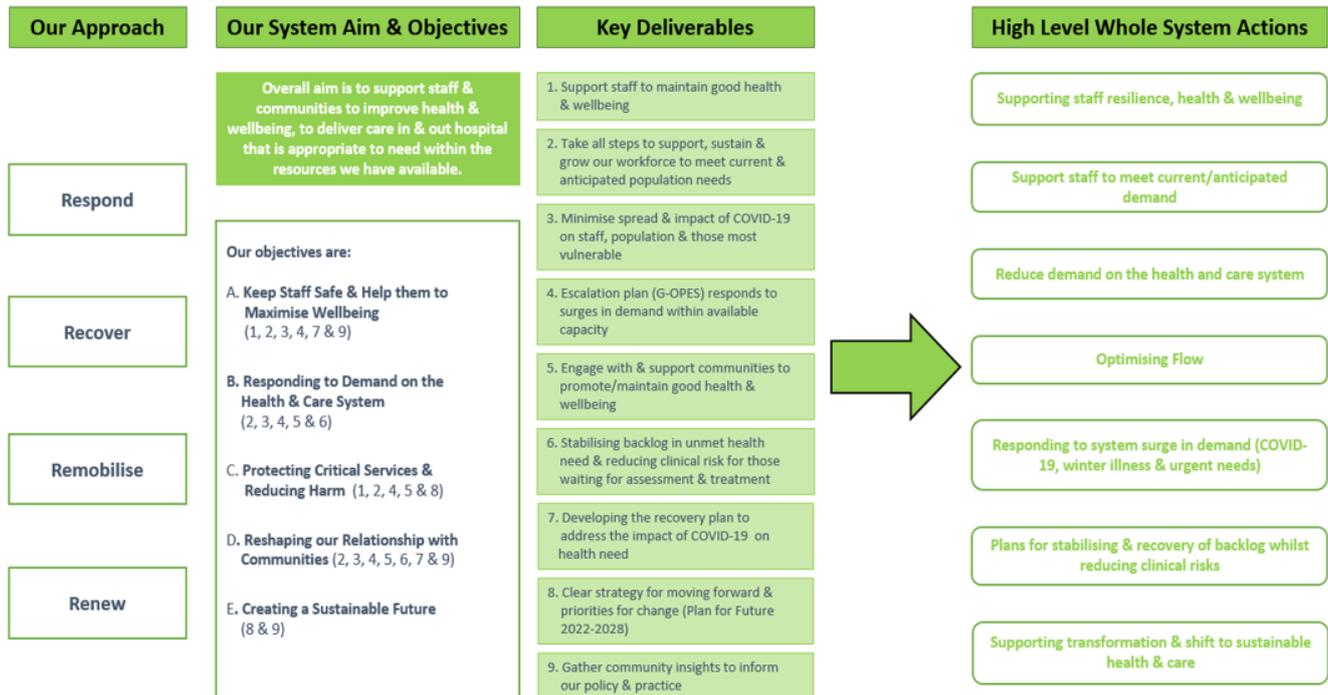
## Remobilisation plans to address pandemic backlogs

81. The Scottish Government requested NHS boards to produce and regularly revise remobilisation plans for the restoration of normal health services following the disruption caused by Covid-19. During 2021/22, NHS Grampian approved the following:

- Remobilisation Plan 3 (RMP3) in June 2021 - The priority was to enable a period of recovery and recuperation for staff and a managed and planned transition to the re-mobilisation of services, whilst at the same time continuing to adapt to "respond to COVID-19" and supporting the phases of the Scottish Government route map to recovery
- Remobilisation Plan 4 in September 2021 (known locally as operation Iris) - there was a requirement by Scottish Government that the next phase of re-mobilisation placed safety alongside delivery and financial sustainability as the three core pillars of the re-mobilisation process.
- In due course RMP4 will be replaced by the board's three delivery plan which will support implementation of the Plan for Life.

82. In the first Covid-19 response (known locally as Operation Rainbow) NHS Grampian maintained a relatively short list of critical services and focus was on responding to the pandemic. During Operation Iris, the list of 'critical' services expanded and included almost all aspects of health care delivery, traditional winter pressures and the continuing response to the pandemic. The approach, aims and deliverables as described in RMP4 are summarised in [Exhibit 11](#).

## Exhibit 11 Remobilisation action plans



Source: NHS Grampian Remobilisation Plan

83. The disruption caused by the pandemic has had a significant impact on waiting lists (Exhibit 16, page 37). As services remobilised, boards needed to balance the ongoing response to the pandemic, staff absences as a result of Covid-19 and begin an exercise to start to address those waiting lists. The Grampian Operational Pressure Escalation System (G-OPES) was therefore introduced as a single system approach to managing the operational pressures as a unified health and care system. The board recognised that it would need to be more responsive to the combined challenges and be ready to make further decisions about handling capacity issues and/or pausing less critical services if demand for unscheduled care significantly increased.

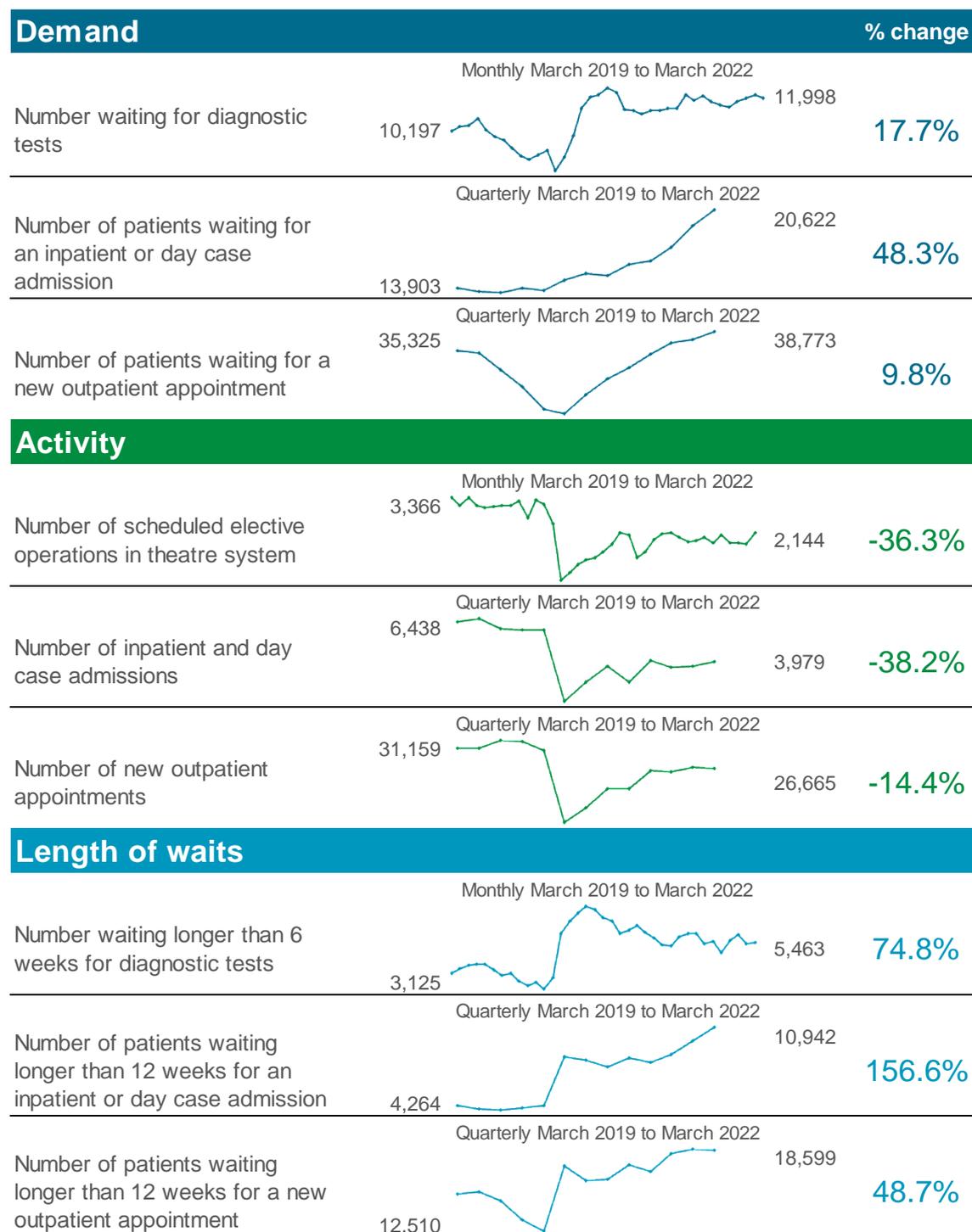
84. Key elements of G-OPES are that it is risk based in terms of the decisions to be taken but there is also a clear understanding that the risks are shared across the single system. Another key driver of the process is that it should provide clarity for staff on priorities and direction of travel.

85. Assurances on the operation of RMP4 were provided to the board via progress reports. In February 2022, the board were advised that 71% (312 out of 441) of milestones due for delivery by 31 March 2022 were completed or on track to be completed. The remaining milestones were delayed due to the impact of the challenging operational environment e.g. winter pressures, staff absences, funding challenges.

## Service performance behind national waiting time standards

86. While waiting time standards are not currently the board's primary focus for performance monitoring, they provide context for the scale of the impact of the pandemic on the delivery of health services. [Exhibit 12](#) demonstrates how activity and waiting times have been impacted by Covid19 and [Exhibit 13](#) provides a comparison of current waiting times compared to prior years.

### Exhibit 12 Trends in demand and activity per acute services



Source: Public Health Scotland

87. Despite the success of the vaccination programme, demand across the system remained challenging with high hospital occupancy levels and unmet community need. The number of delayed bed days occupied for example nearly doubled between April 2021 (1,598) and March 2022 (3,143). This was largely due to care arrangement pressures, a lack of availability or delays in completing assessments. The level of delayed discharge also increased when care homes experienced a Covid-19 outbreak and were unable to take new admissions.

88. The discharge process has been improved but Aberdeen Royal Infirmary is operating at full capacity and transfer of patients can be delayed. It is important to ensure safe flow of patients through the system and compliance with infection control and prevention guidelines. A number of actions including the use of discharge lounge to achieve rapid discharge into community settings have been taken in order to support the reduction in delayed discharges and the effective management of 'surge and flow' across the health and social care system.

89. Activity levels have improved in 2021/22 compared to last year through remobilisation of services. There is continued pressure on the Emergency Department. Despite challenges around capacity, NHS Grampian continues to maintain access for emergency surgery and planned elective surgery for priority patients. However, it is insufficient to meet demand.

90. Length of waits for inpatient or day case admission is on an increasing trend, showing an increase of almost 50% in March 2022 compared with March 2019. Patients waiting over 52 weeks have been contacted by the Board and invited to feedback on the quality-of-life impact on them, to help reflect their needs in the board's remobilisation planning.

## Exhibit 13

### Impact of Covid-19 on national waiting time standards

| Target/standard   | Performance March 2020 | Performance March 2021 | Performance March 2022 |
|---|------------------------|------------------------|------------------------|
| <b>Cancer 62 Day RTT</b><br>Proportion of patients that started treatment within 62 days of referral  | 83%                    | 76%                    | 73% <sup>1</sup>       |
| <b>Patient Treatment Time Guarantee (TTG)</b><br>Proportion of inpatients or day case that were seen within 12 weeks  | 59%                    | 66%                    | 53%                    |
| <b>Outpatients waiting less than 12 weeks</b><br>Proportion of patients on the waiting list at month end who have been waiting less than 12 weeks since referral at month end | 71%                    | 49%                    | 52%                    |

| Target/standard  | Performance March 2020 | Performance March 2021 | Performance March 2022 |
|--|------------------------|------------------------|------------------------|
| <b>A &amp; E attendees</b><br>Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours | 92%                    | 89%                    | 72%                    |
| <b>Cancer 31 Days RTT</b><br>Proportion of patients who started treatment within 31 days of decision to treat            | 95%                    | 98%                    | 91% <sup>1</sup>       |
| <b>Drug and Alcohol 21 days</b><br>Proportion of drug and alcohol patients that started treatment within 21 days         | 93%                    | 96%                    | 92% <sup>1</sup>       |
| <b>CAMHS Waiting Times</b><br>Proportion of patients seen within 18 weeks of referral                                    | 78%                    | 91%                    | 98% <sup>1</sup>       |

Source: Public Health Scotland

Note 1: As at 31 December 2021

91. We highlight the following key points in relation to the performance outcomes reported in Exhibit 13:

- Patient Treatment Time Guarantee – There has been a significant drop in performance for treatment time for inpatient or day case during the year. Bed capacity is lower than pre Covid-19 levels and with the continuing impact of unscheduled care and Covid-19 admissions, there is less capacity to deal with waiting lists.
- 4 hours A&E standard – In addition to the G-OPES system, significant improvement activity around whole system winter planning was implemented. Despite additional measures to increase capacity in the Emergency Department and improve flow from admission to discharge, this standard is significantly lower than in prior years due to revised clinical and operational guidance and the impact of emergency and Covid-19 admissions with a bed capacity lower than pre-pandemic.
- Cancer Treatment waiting times – As services resume, there has been an increase in demand and a rise in the number of cancers being detected and treated.
- Outpatient waiting lists have stabilised in the year and this is attributable to the rapid implementation of remote consulting using the Near Me technology in the early stages of the pandemic. Approx. 30% of new and return outpatient appointments are now undertaken in this way.

- Child and adolescent mental health services (CAMHS) waiting times standard has improved in the past three years, and successfully complied with the 90% national performance standard of 97.9% as at December 2021.

## **Performance monitoring arrangements adapted to reflect the Clinical Prioritisation Framework.**

92. In November 2020, the Scottish Government published the Framework for Clinical Prioritisation providing guidance for prioritising elective care whilst ensuring appropriate Covid19 safety and priority measures are in place. This framework became the primary tool for monitoring service performance during the pandemic.

93. NHS Grampian has an established clinical prioritisation system for planned care. All urgent and priority patients are identified following determination of treatment and the system requires that patients are seen according to clinical need. Board performance reporting arrangements were adapted to reflect performance against the clinical prioritisation framework

## **National performance audit reports**

94. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland. In 2021/22, the following reports were published which may be of direct interest to the board:

- June - [Covid 19: Personal protective equipment](#)
- September - [Covid 19: Vaccination programme](#)
- January - [Social care briefing](#)
- February - [NHS in Scotland 2021](#)
- March - [Drug and alcohol: An update](#)

95. The NHS in Scotland Report on the 2021/22 audits is due to be published early in 2023.

# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

| Issue/risk  | Recommendation  | Agreed management action/timing   |
|---|---|---|
| <p><b>1. Longer term financial planning</b></p> <p>Responding to the pandemic has resulted in significant additional expenditure but break-even has been achieved through additional funding provided by the Scottish Government to support the response to Covid-19.</p> <p>Financial plans have been focused on the short term. With uncertainty around funding and a significant financial shortfall, it will be difficult for the board to deliver remobilisation plans and the recently approved strategic aims in its 'Plan for Life.</p> | <p>Develop a robust medium term financial plan with stakeholders and partners. This should be aligned with the board's workforce and transformation plans and include a range of different scenarios to reflect the uncertain environment to assist future decision making.</p> | <p>A Medium Term Financial Framework (MTFF) has been prepared as an enabling document to the Board's Delivery Plan submitted to the Scottish Government at the end of July 2022. The MTFF sets out the Board's projected financial position over the next three years based on the best available assumptions around funding and costs. Work to continually develop and refine our financial planning processes alongside and complementing of workforce and service delivery planning is ongoing and a key focus of or activities during 2022/23.</p> <p>Director of Finance - ongoing</p> |
| <p><b>2. Performance</b></p> <p>The board is facing significant operational challenges as it takes steps to revert to 'business as usual' activities, begins to tackle waiting list backlogs and aims to improve patient treatment times. Board activity was adversely affected by the Covid-19 disruption and managing the impact will continue to be a major challenge for the board in the years ahead.</p>  | <p>Performance reporting arrangements should be kept under review to ensure there is transparent reporting and regular scrutiny of the measures being taken to address backlogs.</p>  | <p>The delivery of access targets is a key focus of the Board's Delivery Plan to be agreed at the Board meeting on 4 August. The Chief Executive team and the Performance, Finance and Infrastructure assurance sub Committee of the Board receive regular reports on progress against key performance targets and a weekly wider whole system leadership team meeting provides an ongoing operational focus on key</p>   |

| Issue/risk   | Recommendation   | Agreed management action/timing  |
|--|--|--|
|  |  | <p>matters and early resolution of any issues affecting delivery.</p> <p>Ongoing – Chief Executive Team and Portfolio Leads</p>  |
| <p><b>3.Financial capacity</b></p> <p>With changing roles, a loss of senior experience and ongoing competing demands, the finance team have been experiencing capacity pressures but are taking prompt action to recruit into vacant posts.</p>  | <p>The finance function should be reviewed to ensure there is sufficient capacity to meet ongoing pressures. This should include further succession planning and building in sufficient management review and support, especially for staff in new roles, to assist them to operate effectively.</p> | <p>The Director of Finance post has been successfully recruited to with the postholder having significant senior experience of NHS finance. Two additional posts have also been agreed to create additional capacity around financial governance and to progress better use of our systems to help manage capacity issues. Also proleptic appointments in to key senior roles have been agreed to help ensure an effective transition. The finance function remains under pressure however, partly exacerbated by the pressures that limit capacity elsewhere in the system. Creating additional capacity through the innovative use of technology and through the ongoing development of our staff will be a key focus for the Senior Finance team during 2022/23.</p> <p>Director of Finance - ongoing</p> |
| <p><b>4 Purchase order processing (POP) accrual</b></p> <p>Approx. £5.4m of the POP accrual at 31 March 2022 remained outstanding on the system at 30 June 2022. Given the high volume of low value items involved, it was not easily possible to verify the validity of the orders. Due to the time that has passed, it has been assumed the orders are no longer valid and</p> | <p>Outstanding orders should be regularly reviewed to ensure they are followed up with services and concluded as appropriate in a timely manner.</p>   | <p>Managers will be reminded of the importance of regularly reviewing their ordering activity on PECOS and to ensure that all pricing and receipt details are accurate. An automatic routine to delete all outstanding orders over 4 months old will be introduced.</p> <p>Assistant Director of Finance – August 2022</p>   |

| Issue/risk   | Recommendation   | Agreed management action/timing   |
|--|--|---|
| <p>should be cancelled from the system. We therefore concluded that expenditure and accruals were overstated by £5.4m.</p>   |  |   |
| <p><b>5.Untaken leave accrual</b></p> <p>Overall, an improved methodology was implemented to support the annual leave accrual. While not material, a number of issues arose in the audit verification of the accrual which would merit some further refinement of the process.</p> | <p>As a result of Covid-19, the calculation includes a significant accrual carried forward from 2020/21. This will reduce as time passes and staff use their leave. The opening accrual however was not adjusted to remove carried forward balances in respect of staff who left in the 2021/22 who were on the payroll in March 2021.</p> <p>In addition, there were a high number of errors in the audit sample. While we acknowledge that leave requests and changes will regularly be being made to the system, changes in leave entitlement should be much less frequent. This year may have been unique as the new eESS system which was used for the calculation was only implemented in October 2021. The system is therefore probably still bedding in. We would suggest that the findings from the audit sample are considered further and steps taken to improve the calculation next year.</p> | <p>The basis of the calculation and accuracy of source data will be considered in detail as part of our planning for the 2022/23 audit.</p> <p>Deputy Director of Finance - December 2022</p> |

# Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements.

Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

| Account areas   | Comprehensive income and expenditure statement |            | Balance sheet |          |
|---|--|------------|---------------|----------|
|   | Dr<br>£m                                       | Cr<br>£m   | Dr<br>£m      | Cr<br>£m |
| Trade payables and accruals   |  |            | 5.7           |          |
| Staff costs – untaken leave accrual<br>(Refer Exhibit 2, page 11, item 4) |  | 0.3        |               |          |
| Other healthcare expenditure<br>(Refer Exhibit 2, page 12, item 5)        |  | 5.4        |               |          |
| <b>Net impact</b>   |  | <b>5.7</b> | <b>5.7</b>    |          |
|   |  |            |               |          |
|   |  |            |               |          |
|   |  |            |               |          |



# Appendix 3. Risks identified from the auditor's wider responsibility under the Code of Audit Practice

The table below sets out the risks we identified for the 2021/22 audit relating to our wider responsibility under the Code of Audit Practice 2016 and how we addressed each risk in arriving at our conclusion.

| Audit risk   | Assurance procedure  | Results and conclusions   |
|--|--|---|
| <p><b>Leadership capacity</b></p> <p>The Director of Finance (DoF) will leave the organisation in March 2022. He takes a significant amount of sector and local expertise with him and his departure will result in reduced leadership capacity until a new appointment is made and in post. An interim arrangement is due to be implemented in April and recruitment plans are currently being developed.</p> | <p>Discussed with management.</p>  | <p>Interim arrangements included the Deputy DoF acting as DoF between April and August 2022 and the Director of Infrastructure and Sustainability taking responsibility for the infrastructure programme. The Assistant Director of Finance therefore reports direct to Director of Infrastructure and Sustainability on these matters.</p> <p>The board has appointed a new DoF who will take up post in August 2022. He was previously the chief finance officer with Aberdeen City Integration Joint Board and therefore is familiar with Grampian's single system working.</p> <p><b>Conclusion:</b><br/>Satisfactory</p> |
| <p><b>Financial sustainability</b></p> <p>There was an overspend of £4m at 31 December 2021 compared with £0.7m for the same period last year. This is mainly due to significant locum staff costs and additional responsibility payments for junior medical staff. Pressure is also being experienced in several areas of non-pay costs,</p>  | <p>Reviewed finance reports considered by the Leadership Team, Committee and Board</p> <p>Reviewed minutes of meetings where Finance position has been discussed</p> <p>Reviewed financial</p> | <p>NHS boards were supported in 2021/22 by the Scottish Government to break-even. NHS Grampian met all of its financial targets with a small surplus in Core RRL of £0.130 million.</p> <p>The Finance Plan for 2022/23 does not currently present a break-even position and</p>  |

| Audit risk  | Assurance procedure  | Results and conclusions   |
|---|--|---|
| <p>including medical supplies, service contracts and energy and maintenance costs. For the second year, the Scottish Government is providing revenue support to NHS boards and IJBs to deliver breakeven on a non-repayable basis, providing there is appropriate review and control at board level. While this allows the board to concentrate on current operational pressures, it does not help with long-term sustainability. Underlying cost pressures still exist, more resources (funding and staff) are required to address increasing backlogs, and there are growing financial challenges as a result of rising inflation and energy costs. Capital projects such as the Baird and Anchor Hospitals also add to the board's financial challenges. Such projects are experiencing increased costs and delays due to supply shortages and increasing costs post-Brexit.</p> | <p>plan for 2022/23 and assessed board's progress in developing longer-term financial plans</p> <p>Discussed with senior officers the board's plans to address financial pressures.</p> <p>Reviewed project finance reports and discussed with officers.</p> | <p>projects an overspend of around £20 million, This is the first time that NHS Grampian has submitted an unbalanced Finance Plan to the Scottish Government.</p> <p><b>Conclusion:</b> The board is projecting an overspend in 2022/23 and is currently in dialogue with the Scottish Government on this matter.</p>     |
| <p><b>Performance against waiting time standards</b></p> <p>The resurgence of Covid-19 due to Omicron and the associated impact on the workforce have put significant pressures on services. The board is facing significant operational challenges with performance against some waiting time targets continuing to deteriorate.</p>   | <p>Reviewed performance reports presented Committee and the Board.</p> <p>Reviewed Remobilisation Plan progress reports.</p> <p>Compared NHS Grampian performance against waiting time standards.</p>  | <p>Findings are set out in paragraphs 86 to 93 of this report.</p> <p><b>Conclusion:</b></p> <p>Covid-19 has had a major impact on the board's outpatient waiting lists and treatment time guarantees. There has however been significant improvement in children and young people's access to mental health services</p> |

# NHS Grampian

## 2021/22 Annual Audit Report

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