



The State Hospitals Board for Scotland

2021/22 Annual Audit Report to the Board and the Auditor General for Scotland

August 2022



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Key messages



This report concludes our audit of the State Hospitals Board for Scotland for 2021/22.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

<p>Audit opinion</p>	<p>Our independent auditor’s report includes:</p> <ul style="list-style-type: none"> • An unqualified opinion on the financial statements; • An unqualified opinion on regularity; and • An unqualified opinion on other prescribed matters.
<p>Key findings on audit risks and other matters</p>	<p>We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.</p> <p>The accounting policies used to prepare the financial statements are in line with the NHS Accounts Manual and are considered appropriate.</p> <p>All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p> <p>The Board had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
<p>Audit adjustments</p>	<p>Adjustments made to the financial statements are noted at Appendix 2. The overall impact on the financial statements was an increase in reserves of £386,000.</p> <p>All unadjusted differences are collectively and individually immaterial.</p> <p>We also identified disclosure and presentational adjustments during our audit, which have been reflected in the final set of financial statements.</p>
<p>Accounting systems and internal controls</p>	<p>We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess the Board’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

Wider scope audit

Auditor judgement



Financial Sustainability

The Board has prepared a draft 2022/23 financial plan and is currently developing a three year financial plan covering the period 2022/23 to 2024/25. In line with guidance, the three year plan is due to be submitted to the Scottish Government in July 2022. A balanced financial plan has been set for 2022/23 but is dependent on the Board achieving its savings target of £0.811million.

In line with previous years, a high proportion of the savings identified are non-recurring. The Board highlights that it is becoming increasingly challenging to generate the same level of cash release savings in future years. Therefore, the Board is focusing on identifying improvements in operational efficiency, such as the introduction of a new Clinical Care Model, to achieve savings whilst still maintaining the service delivery.

Auditor judgement



Financial Management

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

The Board met its key financial targets for the year, delivering an underspend against its revenue resource limit and a breakeven position against its capital resource limit. A savings target of £1.249million was achieved, primarily through vacancy management.



**Governance
&
Transparency**

Auditor judgement



Governance arrangements at the Board were found to be satisfactory and appropriate. Work remains ongoing to address the outstanding improvement actions raised under the NHS Scotland Blueprint for Good Governance.



**Value for
Money**

Auditor judgement



The Board has appropriate performance management processes in place that support the achievement of value for money. Of the 13 local KPIs, the Board remained on track throughout 2021/22 to meet targets for six KPIs.

Work on developing and implementing a new Clinical Care model has restarted, having previously been halted since March 2020. Appropriate governance arrangements are in place to oversee this process and work remains ongoing to identify and plan the next steps

The Independent Review of Mental Health Services recommended a high security services for women should be opened in the State Hospital and a new NHS Board should be created for forensic mental health services. The Board continues to work with key stakeholders to develop possible options for the Board's response to these recommendations.

Definition

Our wider scope audit involves consideration of the Board's arrangements as they relate to financial sustainability, financial management, governance and transparency, and value for money. We have used the following grading to provide an overall assessment of the arrangements in place in each of the four dimensions.



Introduction



We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence



Scope

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 2021/22 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



Responsibilities

2. The Board is responsible for preparing a set of annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report 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 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. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor 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 Standard. In our professional judgement, we remained 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.

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.

Financial statements audit

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

Overall conclusion

11. The annual report and accounts for the year ended 31 March 2022 were considered by the Audit Committee and approved by the Board on 23 June 2022. Our independent auditor's report is unqualified.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	We have issued unqualified audit opinions.
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Board's functions.</p> <p>Our wider scope audit work considers the financial sustainability of the Board.</p>	<p>We reviewed the financial forecasts for 2022/23. Our understanding of the legislative framework and activities undertaken provided us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>
Regularity	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>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.</p>

Opinion	Basis for opinion	Conclusions
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the audited part of the remuneration and staff report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers. • the information given in the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements. • the information given in the Governance Statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the 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. 	We have no matters to report.

An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in March 2022. 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.
- 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.

- In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas

- Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

16. The significant risk areas 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.

Significant risk areas

1. Management override

Significant risk description

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*.

How the scope of our audit responded to the significant risk

Key judgement

There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.

Audit procedures

- Review of the Board's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

Key observations

We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description

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.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.

Audit procedures

- Evaluate each material revenue stream and review controls over revenue accounting.
- Substantive testing on all material revenue streams.
- Audit testing over the revenue recognition policy to ensure it is appropriate and applied consistently throughout the year.
- Given the findings reported in our 2020/21 Annual Audit Report, we provided particular focus on the treatment of unspent RRL to ensure this is accounted for in line with the Board's accounting policies and the NHS Accounts Manual.

Key observations

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. This view remained unchanged throughout the audit.

Based on audit work performed, we gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements.

Accounting treatment in respect of unspent RRL

In advance of the audit we identified £140,000 of unspent RRL which had been treated as deferred income without prior approval from SGHSCD. Following discussion with management, this amount was adjusted for and correctly reflected in the unaudited accounts.

3. Expenditure recognition

Significant risk description

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud of risk associated with the recording of accruals around the year end.

Audit procedures

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consider the Board's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the financial statements.

4. Asset valuations (significant accounting estimate)

Significant risk description

The Board holds a significant portfolio of land and buildings, with net book value of £72.815million as at 31 March 2021. In accordance with its accounting policies, the Board 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 movements in prices since the last valuation. In line with its 5-year programme, a professional valuation was last completed at 31 March 2021.

Due to the specialised nature of the buildings, the carrying value of assets is based on a range of estimates. The level of estimation uncertainty and the material nature of the Board's asset base represents an increased risk of material misstatement in the financial statements.

How the scope of our audit responded to the significant risk

Key judgements

Boards are required to revalue properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March.

Audit procedures

- Review the application of indexation and consider the assumptions used by the external valuer against external sources of evidence.
- Consider the adequacy and outcome of the Board's most recent assessment for impairment across its estate.
- Consider the competence, capability and objectiveness of the external valuer in line with ISA (UK) 500 Audit Evidence.
- Consider the scope of the external valuer's work and the information provided to the external valuer for completeness.

Key observations

We have gained assurance that the indices provided by the external valuers (Valuation Office Agency) have been correctly applied to the carrying value of the Board's estate in the financial statements. We initially noted that the Board has not correctly applied the indices provided for both land and buildings, resulting in an audit adjustment of £220k to the estate's net book value (appendix 2). The Board has appropriately reflected this adjustment in the financial statements.

An asset verification exercise was undertaken in 2021/22 and management did not identify any indicators of impairment.

In accordance with ISA (UK) 500 “Audit Evidence” we have considered the competence, capability and objectivity of the professional valuer and did not identify any items which gave us cause for concern over the suitability of the valuer. We reviewed the reasonableness of the indices applied to the asset base and overall the valuation movements were in line with our expectation.

5. Provisions (significant accounting estimate)

Significant risk description

The Board in its financial statements includes provisions for legal obligations, doubtful debts, early retirement and injury benefits.

There is a significant degree of subjectivity in the measurement and valuation of provisions. This subjectivity represents an increased risk of misstatement in the financial statements.

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of provisions around the year end.

Audit procedures

- Review of management’s estimation for the provision and related disclosures.
- Consideration of compliance with the requirements of the FReM and NHS Manual for Accounts.

Key observations

Our testing focused on material provisions where values and balances are derived by estimation.

Pensions and similar obligations

The Board meets the additional costs of benefits beyond the NHS Superannuation Scheme in respect of employees who retire early by paying the required amounts on an annual basis over the period between early departure and normal retirement date. The Board provides for this cost in full with payments estimated using inflation and discount rates provided by HM Treasury.

We noted that Board’s calculations had not been updated to reflect the latest inflation rate. We are satisfied that the impact of this is not

material to the financial statements and have raised an unadjusted difference of £33,000. (Appendix 2).

We have reviewed management's estimations and related disclosures and are satisfied that these comply with the requirements of the FReM and NHS Manual for Accounts. Overall the year end balance of the provision is in line with our expectation.

Provision for doubtful debts

A provision for doubtful debts has been recognised in relation to invoices raised for patients treated by the Board under exceptional circumstances. We are satisfied that the amounts recognised as a provision for doubtful debts appropriately reflect the expected level of recovery over the next 12 months.

Other risk factors

Other impacts of COVID-19 on the annual accounts

17. COVID-19 continues to present unprecedented challenges to the operation, financial management and

governance of organisations, including public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
Access to audit evidence	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.	<p>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.</p> <p>We stayed in close contact with Board finance colleagues right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed.</p>
Timescales / administrative processes	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 two months to 31 August. The legislative deadline for laying accounts in the Scottish Parliament remains 31 December.	<p>The Board decided to continue with the original timescales (i.e. 30 June).</p> <p>We worked closely with management throughout the audit to put us in the best position to adhere to this timetable.</p>

Estimates and judgements

18. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
19. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements.

Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, and accruals. Other than asset valuations and provisions we have not determined the accounting estimates to be significant. We revisited our assessment during the fieldwork and completion stages of our audit and concluded that our assessment remained appropriate.

20. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are

reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Asset valuations

Balanced

Asset valuations are carried out by external valuers every five years and adjusted by indices in intervening years to take account of movements in prices since the last valuation. The last valuation was undertaken as at 31 March 2021.

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. We reviewed the reasonableness of the indices applied to the asset base and overall the valuation movements were in line with our expectation.

Provisions

Balanced

Significant estimates were made in relation to the valuation of liabilities related to pensions and similar obligations, and the provision for doubtful debts.

We have reviewed management's estimation of the provision for pension and similar obligations and are satisfied that this is in line with our expectation.

We have reviewed the provision for doubtful debts and are satisfied that the amounts recognised appropriately reflect the expected level of debt recovery over the next 12 months.

Materiality

21. 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

22. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Board and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

23. Our initial assessment of materiality was £612,000. On receipt of the unaudited financial statements, we reassessed materiality and were satisfied that £612,000 remained appropriate. We consider that our assessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£612,000



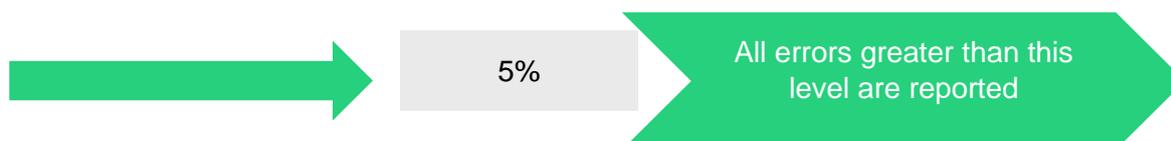
Performance materiality

£459,000



Trivial threshold

£30,500



Materiality

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.

Our assessment of materiality equates to approximately 1.5% of the Board's RRL as disclosed in the unaudited financial statements.

We apply a lower level of materiality to the audit of the Remuneration and Staff Report. Our materiality is set at £5,000.

Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality 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.

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 the uncorrected and undetected misstatements exceed overall materiality.

Trivial misstatements

Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Audit differences

- 24. Audit differences, both adjusted and unadjusted, we identified during the audit are detailed at Appendix 2.
- 25. We also identified disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements and are disclosed at Appendix 2.

Internal controls

- 26. As part of our work we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Board. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

Area	Assessment	Comment
Control and process environment	Satisfactory	We consider the control environment within the entity to be satisfactory. We have however identified recommendations which would further strengthen the Board's internal control environment. These are detailed in Appendix 3.
Quality of supporting schedules	Satisfactory	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	Satisfactory	Management's responses to our audit queries were appropriate and received on a timely basis.

Service auditor reports

27. 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>National IT contract</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) procure a service auditor report from KPMG. In May 2022 KPMG reported an unqualified audit opinion. We have considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions reached.</p>
<p>National Single Instance (NSI) eFinancials</p> <p>NHS Ayrshire & 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 highlighted no critical or significant risk findings and reported an unqualified opinion.</p>

Follow up of prior year recommendations

28. 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 4.

30. The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.
31. There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
32. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Other communications

Accounting policies, presentation and disclosures

29. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by the Board.

Fraud and suspected fraud

33. We have previously discussed the risk of fraud with management. We have

not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

34. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

35. As part of our standard audit testing, we have reviewed the laws and regulations impacting the Board. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

36. We will present the final letter of representation to the Board to sign at the same time as the financial statements are approved.

Related parties

37. We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

38. All requested third party confirmations in respect of bank and legal confirmations have been received.

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.



Auditor judgement



The Board has prepared a draft 2022/23 financial plan and is currently developing a three year financial plan covering the period 2022/23 to 2024/25. In line with guidance, the three year plan is due to be submitted to the Scottish Government in July 2022. A balanced financial plan has been set for 2022/23 but is dependent on the Board achieving its savings target of £0.811million.

In line with previous years, a high proportion of the savings identified are non-recurring. The Board highlights that it is becoming increasingly challenging to generate the same level of cash release savings in future years. Therefore, the Board is focusing on identifying improvements in operational efficiency, such as the introduction of a new Clinical Care Model, to achieve savings whilst still maintaining the service delivery.

Significant audit risk

39. Our audit plan identified one significant risk in relation to financial sustainability:

Financial sustainability

Due to the COVID-19 pandemic, the 2021/22 Annual Operational Plan was replaced by a Remobilisation Plan (RMP). The 2021/22 RMP and financial forecasts covering 2021/22 and 2022/23 were approved by the Board and submitted to the Scottish Government. The Board has forecast a breakeven position across both years, but this is dependent on the realisation of a savings plan and additional funding for ongoing pressures.

Whilst saving targets have been met in recent years, a high proportion of these have been non-recurring. Given the high proportion of staff costs to total costs the Board recognises the difficulties in identifying savings without impacting on patient care or security and expects to face increasing challenges in generating the same level of savings. The Board's focus is therefore on achieving improvements in operational efficiency through new approaches, including the introduction of a new Clinical Care Model.

Financial risks also remain around the workforce plan skill mix and staff rostering which contributes to a high risk of financial shortfall should savings not be achieved.

Noted in the 2021/22 External Audit Plan

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

2022/23 Financial Plan

41. The Board has prepared a 2022/23 Financial Plan, per Scottish Government guidance. Work remains ongoing to develop a three year financial plan covering the period 2022/23 to 2024/25 which is due to be submitted to the Scottish Government in July 2022.
42. The financial plan for 2022/23 shows a small surplus of £300,000:

	2022/23 £'000
Total Expenditure	41,619
.....	
Total Non-Core RRL Expenditure	(2,753)
.....	
Savings	(811)
.....	
Total net expenditure	38,055
.....	
Core RRL	(38,355)
.....	
Forecast position	300
.....	

Source: State Hospital Financial Plan 2022/23

43. The following financial pressures / risks are highlighted in the draft 2022/23 financial plan:
- Workforce Plan Numbers and Skill mix (mainly relating to nursing costs);
 - Pressure from any unfunded element of increased payroll costs;
 - Utility costs continuing to rise, giving an expected significant price and usage pressure in 2022/23;
 - Potential increase in rates;
 - Unfunded costs relating to Covid-related activity (as per below);
 - Associated costs of the Hospital estate upkeep; and
 - The requirement for National Boards to provide additional

savings on a recurring or non-recurring basis; and

- Delivery of savings plan.

44. The Board continues to monitor financial pressures and risks on an ongoing basis through the Finance Reports presented and scrutinised at each Board meeting.

Savings plan

45. The delivery of a balanced financial plan is dependent on the realisation of a savings plan. The extent of the savings plan is currently unknown whilst the Board awaits confirmation of the impact of the agenda for change.

46. Whilst savings targets have been met in each of the recent years, a high proportion of these are non-recurring savings. With staff costs accounting for 84% of total costs, the proportion of non-pay costs which can be reviewed for recurring efficiencies is significantly reduced.

47. Within its Annual Report, the Board highlights the potential increasing difficulty in future years to generate the same level of cash release savings. Therefore, a focus is needed on improvements in operational efficiency, including the introduction of a new Clinical Care Model, to ensure that service delivery is not impacted by the achievement of savings.

	2022/23 £'000
Financial gap before savings	(511)
.....	
Savings target approved by the Board, which consists of:	811
.....	
<i>Planned and pipeline savings</i>	<i>652</i>
.....	
<i>Unidentified savings</i>	<i>159</i>
.....	
Forecast variance against core RRL	300
.....	

Source: State Hospital Financial Plan 2022/23

48. The Board has set a savings target of £0.811million in 2022/23, of which £0.014million has been identified as a recurring saving. Further work is required to develop savings plans for the unidentified balance of £0.159million.

Financial impact of the COVID-19 pandemic

49. In April 2022, the Scottish Government notified all health boards that no Covid-specific funding would be provided in 2022/23, as it has been in previous years. Such costs should now be treated as additional in year pressure within the 2022/23 financial plan.

50. In developing the 2022/23 financial plan, the Board identified the following costs related to Covid-19, including those arising from new ways of working in response to the pandemic;

- Covid-19 internal support team - £48k;
- On-call costs - £40k;
- Catering - £40k;
- Infection control (staffing) - £31k; and
- Staff wellbeing (learning, organisation development additional hours)- £30k.

51. The Board recognises the potential risk presented in meeting these costs through core funding allocation and is exploring the management of these costs through the 2022/23 financial plan. The impact of these costs will be monitored closely and highlighted to the Board through the regular Covid-19 financial update.

Capital programme

52. The significant capital item for the Board in 2022/23 continues to be the Perimeter Security and Enhanced Internal Security Systems Project, which commenced in 2020/21, estimated at £8.7 million (excluding VAT). Funding of £1.050 million is expected in 2022/23 to cover projected spend, with project due to be completed in 2022/23.

Medium Term Planning

53. The Board is currently developing a three-year financial plan, covering the period 2022/23 to 2024/25. This is due to be submitted to the Scottish Government in July 2022. The Scottish Government has confirmed that planning assumptions will be made available in June 2022.

54. As such, the plan was not sufficiently developed at the time of the audit and

was not subject to audit analysis and review.

Workforce Plans

55. A three-year workforce plan has been requested by the Scottish Government, to cover the period 2022/23 to 2024/25.
56. Three Year Workforce Plans are expected to use the Five Pillars of Workforce Planning outlined within the National Workforce Strategy (Plan, Attract, Train, Employ, Nurture) as the basis for outlining proposed actions to secure sufficient workforce to meet local projected short-term recovery and medium-term growth requirements across the health sector.
57. The Board is on track to submit a copy of the Workforce Plan to the Scottish Government by 31 July 2022 deadline.

Financial management

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



Auditor judgement



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

The Board met its key financial targets in the year, delivering an underspend against its revenue resource limit and a breakeven position against its capital resource limit. A savings target of £1.249 million was set for 2021/22 and the Board achieved the delivery of these, primarily through vacancy management.

Financial performance

58. All Boards typically have to work within the resource limits and cash requirements set by the Scottish Government.
59. All key financial targets were met in 2021/22. The Board made a saving against its revenue resource limit of £96,000.

Performance against resource limits

Financial target	Limit £000	Actual £000	Variance £000
Revenue resource limit (RRL)	39,269	39,173	96
Capital resource limit (CRL)	2,883	2,883	-
Cash requirement	41,264	41,264	-

Financial Outturn in 2021/22

60. At the outset, the Board forecasted a breakeven position which was predicated on the achievement of £1.249million efficiency savings. The Board achieved the delivery of these savings, primarily through vacancy management which is non-recurring in nature.
61. In 2021/22, as in the prior year, the Scottish Government paused the annual operating and financial planning process and replaced this with a Remobilisation Plan. This was in recognition of the impact the pandemic has had on health boards' delivery of financial plans and the additional non-repayable funding provided to support in-year financial balance across all boards.
62. Updates on the current financial impact to the Board as a result of Covid-19 are presented to each Board meeting. As in 2020/21, Scottish Government provided an additional allocation to health boards in recognition of Covid-19 costs. The Board engaged in regular discussion with the Scottish Government to review this position and monitor delivery against allocation.
63. The Board received two additional funding allocations in 2021/22 totalling £0.707 million to cover Covid-19 costs. However, £0.303 million has since been returned to Scottish Government to cover costs in 2022/23 due to slippage in activity. This additional non-repayable funding has been reflected in the resource limits and actual performance for the year.
64. The Board achieved a breakeven position against its capital resource limit (CRL) of £2.883million.

Capital programme

65. The Board received a recurring capital allocation of £0.269million. Additional allocations were received in 2021/22 in relation to the Perimeter Security Project (£2.879million), seclusion rooms and key safes (£0.500million) and other small allocations.
66. Total capital allocations in 2021/22 were £3.665million. However, £0.782million of funding was returned to Scottish Government following slippage in the Perimeter Security project and the seclusion rooms and key safes project.

Budget Monitoring

67. The Board presents financial monitoring reports to all meetings of the Executive Management Team and the Board. Since 2020/21 this has included a regular update on Covid-19 costs.
68. Reports include a summary of the position, detail of key financial pressures, summary by directorate, delivery of the savings target and recommendations.
69. In April, the Board receives a financial outturn report for the year summarising the year end position against RRL, CRL and the savings target. This is based on the unaudited position. Whilst the Board receives an update alongside the audited annual report and accounts on any adjustments made through the audit process, it would be beneficial to also outline to the Board the impact this has had on year end position and delivery of savings.

Action Plan Point 1

Systems of internal control

70. We have evaluated the Board's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.
71. Whilst we did not identify any significant weaknesses in the Board's accounting and internal control systems during our audit, we have included in appendix 3 an action plan reflecting points for improvement.

Internal audit

72. 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

73. We found the Board's arrangements for the prevention and detection of fraud and other irregularities to be adequate. The Board has continued to operate an effective control environment throughout the pandemic to ensure that those controls and procedures which prevent fraud have been appropriately managed.
74. Regular updates on fraud related matters (including Counter Fraud Services updates) are presented to the Audit Committee.

National fraud initiative

75. 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.
76. The most recent NFI exercise commenced in 2020. We completed a questionnaire and submitted this to Audit Scotland earlier this year. Overall we concluded that NFI arrangements are satisfactory, and that the Board has taken a reasonable and proportionate approach to investigating matches.

Governance and transparency

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



Auditor judgement



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

Governance and transparency

Governance

77. The following changes in governance arrangements have occurred during 2021/22:
- Tom Hair retired as Employee Director at the end of August 2021 and was replaced by Allan Connor.
 - John White left his position of HR Director in August 2021. Linda Davidson was seconded in from NHS Lanarkshire and appointed as HR Director in August 2021.
78. The Board held two development sessions during 2021/22 that focused on:
- Development of non-executive director skills;
 - Updating the Remobilisation Plan;
 - Risk Reporting;
 - Rostering and safe staffing legislation; and
 - Security upgrade project
79. From review of the Board development sessions, we have concluded that it provides those charged with governance with the information and platform to continue to discharge its responsibilities effectively.
80. In 2021/22 internal audit undertook a review of the Board's Governance arrangements. As reported to the Audit Committee in October 2021, internal audit provided the Board with a substantial assurance rating and concluded that the arrangements in place were adequately designed and

operating effectively. One low risk finding was raised, identifying that the Board should complete the skills matrix of the Members of the Board and review this annually in order to identify any gaps in knowledge in the make-up of the Committee members.

Covid-19 governance arrangements

81. In response to the pandemic, the Board stood up an Incident Command structure, which introduced a streamlined organisational governance structure to support effective decision-making.
82. Since March 2020 the Incident Command structure has been stood up and down again as required, specifically following the outbreaks of COVID-19 and subsequent closure of these outbreaks.
83. During 2021/22, the Incident Command structure was only stood up during December 2021 and January 2022 in response to the Omicron variant. During this period, weekly meetings were held to discuss the operational response, alongside the normal governance structure. The Incident Command structure stood down at the end of January 2022.

New management structure

84. In April 2021, the Board completed a phased move to a new management structure. There has been a focus on embedding this structure during 2021/22 which has been introduced to ensure there is a strong link through each layer of hospital management and the Board.

85. The management structure comprises three management teams that report to the Board;
- Corporate Management Team (CMT)
 - Organisational Management Team (OMT)
 - Hospital Management Team (HMT)

86. In order to review the effectiveness of the new structure, the Board Secretary undertook a detailed review on how it is functioning. In September 2021, CMT held a dedicated development session to review and discuss the findings from this report. The CMT concluded that the new management structure is an improved governance structure for the Board and is more streamlined to allow for more effective decision-making.

Board and Committee meetings

87. Board and Committee meetings have continued to be held virtually rather than in person, to date, to comply the need for non-essential travel and physical distancing, and the preferred mechanism is now through MS Teams, in line with other NHS Boards.
88. Throughout the COVID-19 pandemic, the Board has been able to maintain all aspects of board governance, including its regular schedule of Board and Committee meetings. Due to pressures within the organisation, the January 2022 Audit Committee was postponed until March 2022, with all papers considered in full at this later date.
89. Through our review of committee papers we are satisfied that there continues to be effective scrutiny,

challenge and informed decision making through the financial period.

Blueprint for Good Governance

90. The Board continues to engage with the work being taken forward nationally through the Corporate Governance Steering Group, and Corporate Governance Programme Board on the NHS Scotland Blueprint for Good Governance.
91. The Board has continued to work on delivering its Improvement Action Plan, with progress reported at every second meeting of the Board.
92. Good progress has been made against the 21 workstreams during 2021/22. As reported in April 2022, 12 have been completed with an additional two proposed as closed, three are on track and four have been paused or delayed.
93. The workstreams which have been paused or delayed, primarily as a result of the Covid-19 pandemic are as follows:
- Review of effective rostering system within nursing as component of focus on effective workforce utilisation and safe staffing legislation.
 - Review and develop Communications Strategy.
 - Hold two Board meetings each year at external locations to promote role as a national Board.
 - Annual Review – Public Meeting to be held outside of the hospital to help engage public engagement and attendance.

94. As reported to the Board, management have plans in place to address the remaining actions within 2022/23.

Fairness and equality

95. The Board published its Equality Outcomes 2017-2021 report in April 2021. This summarises progress against the three equality outcomes set for 2017-2021 and plans for the period 2021-2025.
96. The Board has looked to embed consideration of equalities through the following four processes;
- Setting equality outcomes – evidence based, targeted improvements
 - Equality Impact Assessments – to inform all policies and protocols
 - Patient pre-admission specific needs assessment – to support continuity of equitable access
 - Patient equalities monitoring – monitor patient profiles to inform the need for service change.
97. Delivery of equality outcomes is monitored by the Person Centred Improvement Lead and scrutinised by the Person Centred Improvement Steering Group bi-annually. The Organisational Management Team prepare an annual progress report which is published on the Board's website in April of each year.
98. Equality outcomes have been revised for the period 2021-2025; seven outcomes have been set. These are seen by the Board to be achievable and to create opportunities for tangible change. These outcomes will inform the new Clinical Care Model to ensure

there is sufficient focus on enabling fairness and equality.

99. Individual outcome plans have been developed throughout 2021/22. An Executive Lead and Implementation Lead have been identified for each outcome. Appropriate arrangements appear to be in place to oversee and report on delivery of the Board's seven equality outcomes.

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.



Auditor judgement



The Board has appropriate performance management processes in place that support the achievement of value for money. Of the 13 local KPIs, the Board remained on track throughout 2021/22 to meet targets for six KPIs .

Work on developing and implementing a new clinical care model has restarted, having previously been halted since March 2020. Appropriate governance arrangements are in place to oversee this process and work remains ongoing to identify and plan the next steps

The Independent Review of Mental Health Services recommended a high secure services for women should be opened in the State Hospital and a new NHS Board should be created for forensic mental health services. The Board continues to work with key stakeholders to develop possible options for the Board's response to these recommendations.

Performance management

Performance management framework

100. The Board has developed a performance management framework which comprises quarterly updates on key performance indicators (KPIs), an annual overview of performance and year-on-year comparison each June. Under the new management structure, strategic performance is managed by the Corporate Management Team and the Strategic Planning and Performance Group, and operational performance is monitored through the Organisational Management Team and the Hospital Management Team.

101. The national standards directly relevant to the Board are: Psychological Therapies Waiting Times and Sickness Absence. In addition, the Board identified 13 local key performance indicators (KPIs) in 2021/22.

102. In February 2022 the Strategic Planning and Performance Group approved an updated Performance Management Framework for escalation to the CMT and the Board for approval in June 2022. The framework outlines the principles of performance management, why it is important to the Board and how performance will be monitored.

103. The Board has developed a balanced scorecard approach to performance management, structured under the following four areas;

- Better care
- Better health

- Better value
- Better workforce

104. A key development in the Board's performance management is the implementation of the Tableau Business Intelligence system. Dashboards have been developed to enable data driven decision making, providing a platform for key data to be presented visually. Dashboards have continued to be developed through 2022 and work is ongoing to embed these within performance management practices.

Performance in 2021/22

105. Performance against the 13 local KPIs in 2021/22 was presented to the Board in April 2022 and reported in the Annual Report and Accounts for the year ended 31 March 2022.

106. Performance in 2021/22 can be summarised as follows;

- For six KPIs, targets were consistently met (or within 5%) throughout 2021/22;
- For two KPIs, targets were met (or within 5%) in at least two quarters of 2021/22;
- For three KPIs, performance was predominantly between 5-10% of the target throughout 2021/22;
- For two KPIs, performance was more than 10% away from the target.

107. The five KPIs that were predominantly outwith 5% of the target during 2021/22 are as follows;

- Patients will have a healthier BMI

- Patients will be offered an annual physical health review
- Sickness absence rate
- Patients have their care and treatment plans reviewed at 6 monthly intervals
- Attendance by all clinical staff at case reviews (performance varies by profession)

108. Through review of Board papers, we concluded that performance is given the appropriate level of scrutiny and challenge.

Sickness absence

109. Addressing sickness absence is a key priority for the Board. The Board and Staff Governance Committee receive regular reports on sickness absence.
110. The sickness absence rate for 2021/22 was 6.39% compared to the national target of 4% and the Board's target of 5%. This is a significant increase on performance reported in the prior year, when the Board reported sickness absence rate of 5.23%, its lowest level since 2014/15.
111. Covid-19 related absences are excluded from this % and are measured and reported separately.

Clinical care model

112. The clinical care model describes the way in which the Board provides high secure services to patients with a mental disorder. In 2019, the Board endorsed its preferred option for a new clinical care model which consisted of a 10 ward model with eight major mental illness wards and two intellectual disability wards.

113. The intention was to transition to the new clinical care model between April and June 2020. However, in March 2020 the Clinical Model Oversight Board agreed to suspend activity on this area of work due to the Covid-19 pandemic. All members, external stakeholders and the Board agreed this was the most appropriate course of action at the time.

114. Work on the clinical care model restarted in June 2021. As a first step, the Board identified the adjustments required to the model to reflect current patient population, lessons learned from working through the Covid-19 pandemic and recommendations arising from the Independent Review of Forensic Mental Health.

115. Mapping exercises identified that the patient population for major mental illness patients exceed the beds available for this group in the clinical model. Various options for addressing this issue have been identified.

116. A project group was established in 2021/22 to commence implementation planning, however progress was stalled in January 2022 due to the impact of the omicron variant and the subsequent measures introduced. Board members received an update in February 2022 outlining the next steps to restart the implementation of the clinical model which are now being progressed.

Independent Review of Mental Health Services

117. Published in February 2021, the Independent Review of Mental Health Services report highlighted a number of recommendations, with the Scottish Government publishing its response in

October 2021. The Board continues to work with the review team and Scottish Government to respond to the recommendations.

118. The recommendations which are expected to have most significant impact on the Board are:
- A high secure service for women should be opened in the State Hospital.
 - A new NHS Board should be created for forensic mental health services in Scotland.
119. The Scottish Government has committed to providing additional funding above the Board's current financial allocation to fund the establishment of a women's high security ward. The Board is confident that the introduction of a women's ward will not reduce its current available capacity and further work is required to reflect this in financial plans.
120. The Scottish Government established a Short Life working Group (SLWG) to lead on the response to the review recommendations. This group has been meeting twice weekly in order to develop possible options for the Board's response to the creation of a new NHS Board.
121. The Board has recognised that there will be different complexities, timeframes and challenges depending on which option is selected and implemented. The SLWG are on track to put forward a proposal for change, based on the option selected, to the Scottish Government in Autumn 2022

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Appendix 1: Respective responsibilities of the Board and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both the Board and the auditor and are detailed below.

Board responsibilities

The Board has primary responsibility for ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

Area	Board responsibilities
Corporate governance	<p>The Board, through its chief executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements.	<p>The Board has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also address the longer term financial sustainability of the Board. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the</p>

Area	Board responsibilities
	<p>entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The Board is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The Board is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p>Financial position</p>	<p>The Board is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

Auditor responsibilities

Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

Wider scope 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

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

In October 2020, the Auditor General extended our audit appointment for one year through to the audit of the 2021/22 financial year to provide continuity and stability in the current challenging environment. The FRC's Ethical Standard states that careful consideration must be given once an audit engagement partner has held the role for a continuous period of ten years. Our period of total uninterrupted appointment as at the end of 31 March 2021 was 10 years. As such to mitigate the threat to auditor independence as result of long association, and in accordance with guidance from Audit Scotland, we rotated the engagement lead. Karen Jones was the Board's Engagement Lead. As Karen Jones has held a management

position in the audit engagement team for a period of 10 years, we applied internal quality control review procedures to further mitigate the threat to auditor independence.

Audit and non-audit fees

The total fees charged to the Board for the provision of services in 2021/22 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of the State Hospitals Board for Scotland (Auditor remuneration)	42,820	41,930
Total audit	42,820	41,930
Non-audit services	-	-
Total fees	42,820	41,930

The FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. No non-audit services were provided to the State Hospitals Board for Scotland.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at the Board since appointment can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

Appendix 2: Adjusted and unadjusted errors identified during the audit

Adjusted misstatements

No	Detail	Assets	Liabilities	Reserves	SoCNE
		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£'000	£'000	£'000	£'000
1.	Adjustment over treatment of income for patients under exceptional circumstances ¹ (prior year restatement)	(1,296)	1,296		
2.	Annual transfer of realised element of the revaluation reserve to the general fund			Revaluation reserve: 373 General fund: (373)	
3.	Correct application of valuation indices to the Board's estate	200		(161)	(39)
4.	Reclassification of capital spend	178			(178)
5.	Adjustment to CNORIS provision following Audit Scotland's review of the CLO's work		8		(8)
Net impact on (income) / expenditure per audited accounts					(225)
Net assets per the unaudited accounts					83,199
Total audit adjustments					386
Net assets per audited accounts					83,585

¹ Audit adjustments were made in the annual accounts to present this provision for doubtful debts against receivables, rather than as a provision.

Unadjusted misstatements

Our summary of unadjusted audit differences are presented below. We have discussed these with management and confirmed that the unadjusted difference is not material.

No	Detail	Assets	Liabilities	Reserves	SoCNE
		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£'000	£'000	£'000	£'000
1.	Pension provision – application of correct inflation rate as advised by HM Treasury		(33)		33
Net impact on (income) / expenditure per audited accounts					33

Disclosure amendments

No	Detail
1.	Performance Report – inclusion of Chief Executive Statement and other minor disclosures
2.	Governance Statement – updated to fully reflect activity within the year
3.	Remuneration Report – presentation of annualised pay for individuals not in post for the full year
4.	Staff Report – additional disclosures to address new FReM requirements
	Related parties – additional disclosure to identified Scottish Government and other health boards as related parties

Appendix 3: Action plan

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

The recommendations are categorised into three risk ratings:

Key:

1. Significant deficiency

2. Other deficiency

3. Other observation

1. Year end reporting to the Board		Other observation
Observation	<p>The Board receives a financial outturn report for the year every April which summarises the year end position against RRL, CRL and the savings target. This is based on the unaudited position and therefore subject to change.</p> <p>For 2020/21 for example, it was reported to the Board in April 2021 that the State Hospital had over achieved against the savings target of £1.322million by £144,000. However, following the audit, the State Hospital reported to Audit Scotland that the Board had underachieved the savings target by £116,000.</p> <p>Whilst the Board receives an update of any audit adjustments made when receiving the audited annual report and accounts, we could not see any evidence that the Board received an update on the audited position against the savings target.</p>	
Implication	The Board may not be aware of the final audited outturn position.	
Recommendation	The Board should receive an updated summary of the year end position against RRL, CRL and savings target following the completion of the audit.	
Management response	<p>Reporting of final savings outturn will be included in Board updates going forward post year-end.</p> <p>Responsible individual: Finance and eHealth Director</p> <p>Due date: June 2022</p>	

2. IT backups

Other observation

Observation	Whilst regular backups of key systems are taken, these are stored on site and not subject to regular testing.
Implication	Robust backup policies are key to supporting business continuity and preventing loss of information.
Recommendation	Management should review their backup policy to ensure these are appropriately stored in an off site location and are subject to frequent testing.
Management response	<p>Back-up storage off-site options will be reviewed and updated, with testing linked thereto</p> <p>Responsible individual: Head of eHealth</p> <p>Due date: September 2022</p>

Appendix 4: Follow up of prior year recommendations

We have followed up on progress in implementing actions raised in the prior year/s. The table below summarises progress made by the Board in implementing these actions.

Treatment of unspent RRL

Recommendation The Board should review its accounting treatment in respect of unspent RRL.

Rating **Other deficiency** **Implementation date** December 2021

Closed In advance of the audit we identified £140,000 of unspent RRL which had been treated as deferred income without prior approval from SGHSCD. Following discussion with management, this amount was correctly reflected in the unaudited accounts.

Management will review the position in future years as required

Property, plant and equipment

Recommendation Procedures should be developed covering the following areas:

- Development of procedures on recording assets under construction on the fixed asset register once they become available for use
- Development of procedures to review assets under construction for impairment as the project progresses
- Development of procedures for updating assets lives in the year the full asset valuation is carried out
- Development of procedures over internal asset verification exercises during the year

Rating **Other deficiency** **Implementation date** December 2021

Closed Management have developed procedures that cover the above areas and audit testing confirmed that these are being complied with.

Employee contracts

Recommendation All employee contracts should be signed prior to employment commencing.

Rating	Other deficiency	Implementation date
		December 2021

Closed	From our sample testing we noted that not all employee contracts had been signed, however these relate to employees in employment prior to 2021/22. Management have introduced sufficient checks to ensure that a signed employee contract is on file before the candidate's status is changed to hired and before the employment commenced.
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Service Level Agreements

Recommendation Signed SLAs should be obtained and kept for all service providers.
The SLA schedule should be reviewed and updated on a regular basis.

Rating	Other deficiency	Implementation date
		Ongoing

Ongoing	Procurement department maintain a schedule within the contract register of all SLAs, which is monitored on a regular basis. However, from our SLA testing, we noted that not all SLAs were up to date including the SLA with the Board's payroll provider NHS Greater Glasgow and Clyde. We understand that the Board has been in discussion with NHS Greater Glasgow and Clyde to develop an SLA but with limited response.
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