

# NHS Grampian

2017/18 Annual Audit Report



 AUDIT SCOTLAND

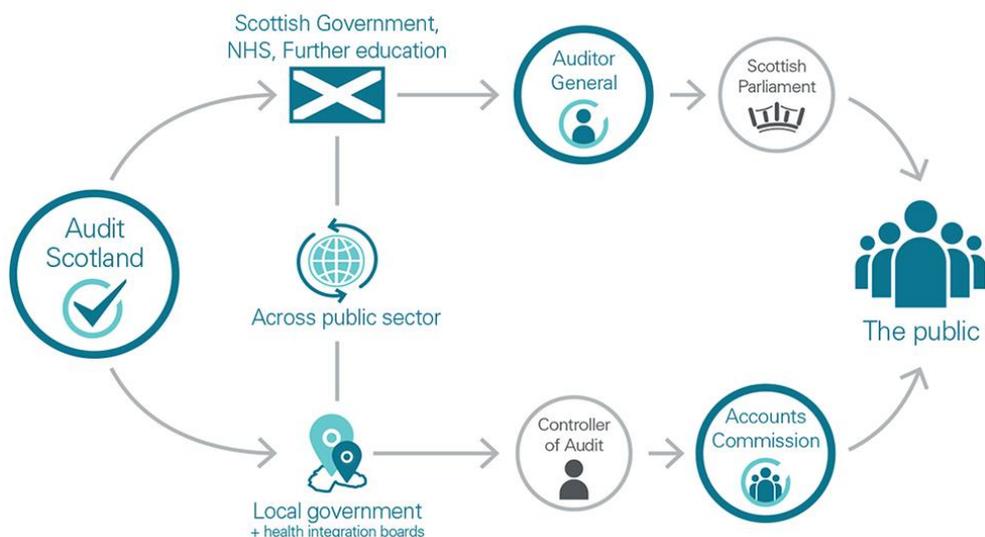
Prepared for the Board of NHS Grampian and the Auditor General for Scotland

26 June 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2017/18 annual report and accounts

- 1 Our audit opinions in respect of NHS Grampian's Annual Report and Accounts were unqualified. These covered the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

## Financial management

- 2 NHS Grampian has effective arrangements in place for managing its resources. It met its 2017/18 financial targets and while it met its savings target, this was achieved through continued reliance on non-recurring savings.
- 3 More use of scenario planning and modelling will assist the board in developing longer term plans, including service redesign, to support improved performance. The board has a significant capital programme which includes the construction of a new hospital, the Baird Family Hospital and Anchor Centre.
- 4 The Chief Executive and Director of Finance were assigned additional Regional responsibilities in the Northern Region effective since August 2017. The first regional delivery plan was prepared during the year and is being discussed with the Scottish Government.

## Financial sustainability

- 5 While the board achieved financial balance in 2017/18 it will continue to face a challenging financial position. Savings required in 2018/19 are currently estimated at £18.3m including services managed by Integration Joint Boards. Expected savings will be delivered through a reduction in prescribing and temporary staff costs and service efficiencies.
- 6 Despite a range of innovative initiatives to attract new staff to Grampian, the board continues to experience difficulties in recruiting sufficient staff and relies on temporary or agency staff to fill gaps. While there was a reduction in such costs this year, overall costs remain high and continue to add to the financial pressures facing the board.

## Governance and transparency

- 7 The board has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Transparency could however be improved by reviewing the effectiveness of its performance and financial reporting and making more information publicly available.

## Value for money

- 8 The board failed to meet 16 out of 19 key national performance targets as set out in its Local Delivery Plan. The board states that its priority is delivering the best services it can within the resources it has available to maintain financial balance.

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# Introduction

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1. This report summarises the findings from our 2017/18 audit of Grampian Health Board, commonly known as NHS Grampian (or NHSG).
2. The scope of our audit was set out in our Annual Audit Plan which was presented to the Audit Committee in December 2017. This report comprises the findings from:
  - an audit of the board's annual report and accounts
  - consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2017/18 have been:
  - a review of the board's main financial systems
  - an audit of the board's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
  - consideration of the four audit dimensions

4. 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 Scottish Ministers. The board's annual report and accounts includes the following:
  - Performance Report
  - Accountability Report (which includes the Directors' Report, Governance Statement and Remuneration and Staff Report)
  - Financial statements and supporting notes.
5. The board is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016 (the Code), and guided by the auditing profession's ethical guidance.
7. As public sector auditors, we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the Code.
8. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to 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.
9. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation.
10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We also confirm that we have not undertaken any non-audit related services in 2017/18 and therefore the previously notified audit fee of £189,570 remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

11. Our aim is to add value to NHS Grampian by providing insight and foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.
12. 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.
13. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual report and accounts



### Main judgements

**We provided unqualified audit opinions on the annual report and accounts.**

**Expenditure and income were in accordance with applicable enactments and guidance.**

### Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the board on 26 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- that the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- that we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

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.

### Submission of annual report and accounts for audit

15. We received the unaudited annual report and accounts on 14 May 2018 in line with our agreed audit timetable. The board's group accounts included the financial results of the Endowment Funds and the three Grampian Integration Joint Boards (IJBs).
16. The working papers provided were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risks of material misstatement

17. [Appendix 2](#) provides a description of the areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed. Also included within the appendix are wider dimension risks.

## Materiality

**18.** Misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

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

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

## Exhibit 2

### Materiality values

Materiality level	Amount
<p><b>Overall materiality</b></p> <p>This is the figure we use in assessing the overall impact of audit adjustments on the financial statements. Initially calculated at the planning stage of our audit, it was set at 1% of gross expenditure based on the latest forecast outturn for the year.</p>	£11.9m
<p><b>Performance materiality</b></p> <p>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 calculated performance materiality at 50% of overall materiality.</p>	£6.0m
<p><b>Reporting threshold</b></p> <p>We are required to report to those charged with governance all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at approximately 1% of overall materiality.</p>	£100k

Source: NHS Grampian Annual Audit Plan 2017/18

## How we evaluate misstatements

**21.** Misstatements identified during the audit which were amended in the accounts increased expenditure by £1.210m and reduced Net Assets by £4.206m. The two main matters are covered in [Exhibit 3](#) and relate to Aberdeenshire IJB contributions and Endowment Fund commitments.

**22.** A number of further adjustments were identified during the course of our audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality. Management do not propose to adjust for the misstatements set out in [Appendix 3](#) 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 decrease net expenditure for the year by £530k with a corresponding increase in Net Assets.

## Significant findings from the audit in accordance with ISA 260

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#).

**24.** The findings include our views about significant qualitative aspects of the board's accounting practices, for example, misstatements in the annual accounts and accounting estimates and judgements.

### Exhibit 3

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

Finding	Resolution
<p><b>1. Partner contribution to the Aberdeenshire Integration Joint Board (IJB)</b></p> <p>In accordance with the IJB's integration scheme, partner bodies should reach agreement on additional contributions to cover any shortfall incurred. During the preparation of the accounts, the board agreed to make an additional contribution to the Aberdeenshire IJB to cover its share of the IJB's expected overspend for 2017/18. When the IJB finalised its year end position in May 2018, the actual overspend was less than initially calculated due to a change in Aberdeenshire Council's social care position and consequently, reduced NHS Grampian's share. NHS Grampian's additional contribution therefore reduced from £2.9m to £2.0m. As the IJB's outturn position was confirmed after NHS Grampian's accounts had been prepared, the board's accounts were amended by £0.9m to reflect the reduced contribution to the IJB.</p>	<p>Amendments were made in the revised accounts.</p>
<p><b>2. Group Accounts – recognition of Endowment Fund commitments</b></p> <p>The Charities SORP (2015) requires a liability to be recognised where an obligation exists, the amount is measurable and settlement is probable. The recently appointed external auditor for the endowment funds took the view that where grants were approved by the Endowment Committee at the year end and associated decisions notified to relevant recipients, the amounts met the conditions of the Charities SORP and should be provided for. In the past, such amounts did not appear as expenditure in the Statement of Financial Activities (income and expenditure statement) but were treated as contingent liabilities in a note to the accounts.</p> <p>As a result, provisions have increased by £5.2m split between the current year £2.2m and the restatement of previous years £3m. There is no impact on the funds committed to projects at 31 March 2018 but simply a change in the timing of recognition of expenditure within the accounts.</p> <p>As the Endowment Fund is consolidated within NHS Grampian's group accounts, the change in accounting treatment also affects the group accounts.</p>	<p>Amendments were made in the revised accounts.</p>

Finding	Resolution
<p><b>3. Appropriateness of accounting estimates – significant accruals in respect of staff costs</b></p> <p>It is not uncommon for trade/other payables and provisions to be based on estimates for which bias may be present. Accruals at 31 March 2018 included estimates for staff untaken annual leave (£3m) and potential backdated payments to retirees and other former employees who were shift workers entitled to be paid as if at work when on annual leave (£2.3m).</p> <p>In both cases, the calculation was based on a number of assumptions, some of which had been amended from the previous year due to changes in circumstance.</p> <p>While the approaches taken are considered reasonable in principle, due to the uncertainty around the assumptions made, it is not possible for us to conclude on the accuracy of the estimates. In overall terms however, it is unlikely that the amounts involved would be material to the accounts.</p>	<p>On the basis of materiality, the amounts accrued have been accepted.</p> <p>The accrual in respect of backdated pay is based on the number of potential claims the board might receive. Due to the uncertain nature of the number of potential claims, a contingent liability has been included in the revised accounts to cover any additional claims which may be submitted by former staff.</p> <p>On conclusion of the audit, we routinely hold a 'wash up' meeting with the finance team to discuss areas of improvement. These matters will be included on the agenda for the 2018 meeting to determine if there are improvements which can be made for 2018/19 financial statements process.</p>

## Other matters

### Annual Report

25. As set out in paragraph 4, the Annual Report and Accounts includes a Performance Report and a Governance Statement. In both cases, the Director of Finance and his team have carried out additional work this year to improve the content of the reports but there are further improvements which could be made to fully meet the requirements of the regulations.
26. The performance report provides Grampian's results for the year for all key targets set out in the board's Local Development Plan. In several cases, trends and trajectories have also been provided. The main omission is the absence of explanatory narratives covering the reasons for any significant movement in results relevant to the financial year and where appropriate, the work being undertaken to address poor performance. While the report currently includes the necessary figures, it does not provide the Grampian context on the reasons or any action being taken to improve results.
27. The governance statement sets out a summary of the board's governance framework and how it operates each year. While we are satisfied that the information in the governance statement is consistent with information gathered during the course of our audit work, the statement should also provide an assessment of the actual governance arrangements during the year including risk management, and identify any additional improvement required.
28. While internal audit's significant recommendations for the year are reflected in the statement, more could be included on the effectiveness of governance arrangements in place that year, for example, demonstrating how risks experienced in the year were managed through specific examples and case studies. In order to streamline the level of detail in the report, providing signposting and links to other key documents readily accessible on the board's website is recommended.

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## Recommendation 1

**Arrangements for the preparation of the Annual Report should be reviewed to ensure there are processes in place to provide further narrative on the results for the year and to undertake regular assessment of the effectiveness of the board's governance framework.**

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### Data Analytics

- 29.** Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as “the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an audit ....for the purpose of planning and performing the audit”. Such techniques provide ways of dealing with high volumes of transactions and complexity. They also enhance audit quality and efficiency.
- 30.** In 2017/18, we piloted the use of data analytics in NHS Grampian as part of our planned audit approach. We obtained and analysed every general ledger transaction processed by the board in 2017/18: There were over 2.1m postings with an average value of £812, posted from 58 user accounts. This enabled us to generate detailed reports for each account area in the Statement of Comprehensive Net Expenditure from which we selected our transactions samples. This gave us stronger assurances and improved audit trails for each line in the accounts.

### Good practice

- 31.** The main changes to the 2017/18 financial statements introduced by the NHS Accounts Manual were streamlined notes to the accounts in respect of income and expenditure. Through the NHS Annual Accounts Sub Group, senior finance officers from Grampian led in the national exercise in mapping the financial ledger to the new format of the accounts. The output from this exercise (known as a BOXi report) was shared with other boards. We found the BOXi report useful as it facilitated drilling down to the details making up each balance included in the financial statements.

# Part 2

## Financial management



### Main judgements

NHS Grampian has effective financial management arrangements in place.

NHS Grampian had adequate systems of internal control in place during the year and these were appropriate and operated effectively.

### Financial performance in 2017/18

32. NHS Grampian, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. These were subject to change during the year depending on circumstances and the final notification letter with final limits was issued by the Scottish Government on 8 May 2018. As illustrated in [Exhibit 4](#), the board operated within all limits during 2017/18.

### Exhibit 4

Performance against resource limits in 2017/18

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	1,004.59	1,003.57	1.02
Non-core revenue resource limit	41.22	41.22	0
<b>Total revenue resource limit</b>	<b>1,045.81</b>	<b>1,044.79</b>	<b>1.02</b>
Core capital resource limit	17.87	17.87	0
Non-core capital resource limit	11.27	11.27	0
<b>Total capital resource limit</b>	<b>29.14</b>	<b>29.14</b>	<b>0</b>
<b>Cash requirement</b>	<b>1,072.35</b>	<b>1,072.35</b>	<b>0</b>

Source: NHS Grampian Annual Report and Accounts 2017/18

### Surplus against Revenue Resource Limit (RRL)

- 33. The board reported a net retained surplus of £1.022m inclusive of £1.031m surplus brought forward from 2016/17 producing a net deficit in year of £0.009m. While the board reported a surplus at the end of 2017/18, it continued to incur operational overspends, mainly in the Acute Sector which this year amounted to £8.1m. This was due to ongoing high medical locum costs, non-compliant junior doctor rotas and use of agency and bank nurses.
- 34. Exhibit 5 shows that medical locum costs reduced by £3.1m compared to last year which the board attributes to the ongoing work to reduce reliance on career grade and doctors in training agency staff. This work includes assurance on the adoption of robust scrutiny procedures in relation to the engagement and employment of all medical agency locums.

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

### Exhibit 5 Medical locum analysis



Source: NHS Grampian

- 35. From 1 October 2008, staff covered by Agenda for Change terms and conditions should have been paid as if at work when on annual leave. While changes were implemented, it became clear in subsequent years that the changes had not been applied fully and/or consistently to all relevant staff. Following a significant piece of work, NHS Grampian paid £8.36m to existing staff during 2017/18 to resolve these outstanding issue and accrued £2.26m as an estimate of future claims. Taking account of an opening provision of £2.70m, the net impact on this year's staff costs was an increase of £7.92m.

### Funding allocations

- 36. NHS bodies receive allocation letters throughout the year with funding often ring-fenced for specific purposes. Cumulative slippage on earmarked funding which the board had used temporarily to support the revenue position but has yet to spend on the specific policy objective required by the allocation letter stood at £11.1m at 31 March 2018. This includes £9.5m from 2017/18 funding allocations and £1.6m was brought forward from previous years.

- 37.** The board explained that earmarked funds often cannot be used in year for the purpose allocated, for example, due to recruitment difficulties, the timing of agreement on investment in new infrastructure, procurement processes and specification of services. Where these timing issues arise, this can lead to a significant underspend in one year with the related expenditure likely to materialise in a future year.
- 38.** As in previous years, the board achieved financial balance by relying on non-recurring, short-term measures. This included a combination of slippage on earmarked funds of £4.7m and lower than anticipated expenditure on provisions of £3.7m. This is unsustainable in the longer term and investments on services for which earmarked funds were given may be compromised.

### Capital Resource Limit (CRL)

- 39.** Total capital expenditure for the year was £41.4m comprising mainly of: completion of the multi-storey car park, replacement of essential plant, IT and medical equipment, major refurbishment to reduce backlog maintenance and meet statutory requirements, and continuation of the construction of the Inverurie and Foresterhill health centres which are funded through the HUB initiative. Funding during the year was in the form of both core (£17.9m), non-core capital resources (£11.3m), donations (£10.0m) and proceeds from disposal of assets (£2.2m).
- 40.** In March 2018, the board received the Scottish Government's approval for its £163.7m Outline Business Case for the construction of the Baird Family Hospital and Anchor Centre on the Foresterhill site. This major project represents around 50% of the board's £300m planned infrastructure investment over the next 5 years. The new facilities will provide a range of services including maternity and cancer care. Construction is scheduled to commence in Spring 2019 and the new facility is expected to become operational in March 2022.
- 41.** The board's infrastructure programme is managed by the Asset Management Group who meet on a monthly basis to review project updates and monitor progress. The group has a range of managers from across the organisation including property, operational services and finance. Based on a review of evidence, including discussion with officers and attendance at meetings, we concluded that asset management arrangements were effective.

### Efficiency savings

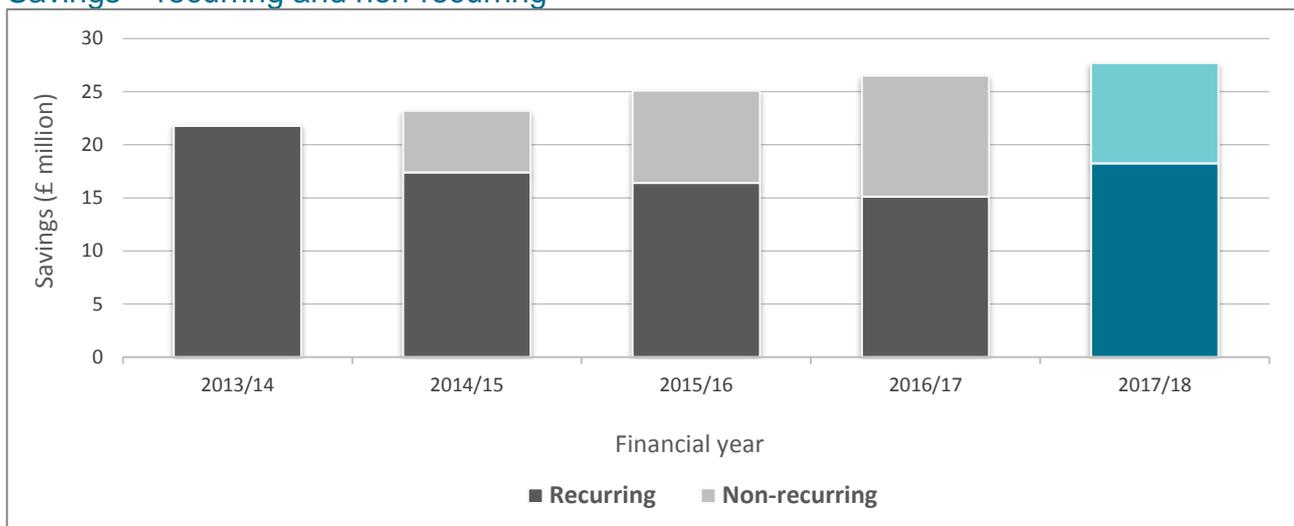
- 42.** NHS Grampian was required to make efficiency savings of 3.1% in 2017/18. This is equivalent to a savings target of £27.7m (£26.5m in 2016/17). £18.3m or 66% of savings were achieved on a recurring basis with the remainder of £9.4m or 34% on a non-recurring basis. The original target in the Local Delivery Plan was a 78%/22% split between recurring and non-recurring.
- 43.** As illustrated in [Exhibit 6](#), while the portion of recurring savings has increased compared with last year, reliance on non-recurring savings remains high. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years. Recurring savings are savings, that once achieved, recur year-on-year from that date
- 44.** In our opinion, the practice of relying on non-recurring savings is not sustainable for the board in the longer term.

## Systems of internal control

45. As part of our audit, we identify and inspect the key internal controls in the accounting systems which we regard as significant in producing the financial statements. Our objective is to gain assurance that NHS Grampian has sound systems of recording and processing transactions which provide the basis for the preparation of the financial statements.

### Exhibit 6

#### Savings – recurring and non-recurring



Source: Annual Audit Reports for 2013-17 and Finance Performance Return to Scottish Government for 2017/18

46. Our findings were included in our Interim Report presented to the Audit Committee on 20 March 2018. We concluded that the controls put in place by management are appropriate and operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Grampian's ability to record, process, summarise and report financial and other relevant data which would result in a material misstatement in the financial statements.

## Good practice

47. From 2017/18, the Budget Steering Group received a savings tracker and progress report showing the allocation of the savings target across departments. For each savings initiative, actual spend for the past three months is shown and a traffic light system is used to indicate the direction of travel. It also provides useful commentary explaining the current position and the action taken or in progress to achieve the desired year end result.
48. We made a recommendation in our 2016/17 Annual Report for the board to review the content of its financial reports and savings plans. We regard this introduction of a savings tracker as good practice as it holds department heads to account and allows senior officers to assess progress in achieving savings targets.

# Part 3

## Financial sustainability



### Main judgements

**NHS Grampian has appropriate and effective financial planning arrangements in place.**

**The board achieved its 2017/18 savings target through increased reliance on non-recurring savings and will continue to face challenges to maintain financial balance in the medium term.**

**More use of scenario planning and modelling will assist the board in developing longer term financial plans.**

### Financial planning

**49.** In line with the requirement of the Scottish Government, NHS Grampian submitted its first draft Annual Operational Plan (AOP) in March 2018 and continues to be in ongoing discussion on the content. This new planning process for 2018/19 replaces the previous Local Delivery Plan. The expectation from the Scottish Government is that the plan should include:

- forecast trajectories for inpatient and outpatient elective waiting times
- Integration Authorities' plans to reduce delayed discharges, waits for community hospitals, avoidable admissions and inappropriately long stays in hospital
- plans to deliver financial balance in 2018/19
- maintenance of performance against the unscheduled care 4-hour access target.

**50.** Unlike LDPs, the AOP is supported by a one-year financial plan only covering the 2018/19 financial year. Baseline funding increased by £13.5m (1.5%) which is better than the £4.5m (0.5%) originally anticipated. In addition, the board will receive £5.0m in National Resource Allocation Committee (NRAC) formula allocation which will take the board to within 0.8% of its target share. The board also expects additional funding of £7.5m towards a pay increase in line with the Scottish Government's pay policy which is estimated by the board to be £15.1m. The carry forward operational overspend stands at £12.7m.

**51.** In summary, the board forecasts to receive £25.2m in new resources of which £6.9m is allocated to the IJBs and the balance of £18.2m will be used to cover pay and non-pay uplifts of £15.2m and service developments of £3.0m. This means that the operational overspend will require to be met from savings.

**52.** To achieve financial balance, cash releasing savings totalling £18.3m (£12.7m from services directly managed by NHS Grampian and £5.6m from services managed by the IJBs) are required. The savings are targeted to come from

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

reduced temporary staffing (i.e. locums and agency staff), prescribing costs and service efficiencies.

- 53.** As outlined in paragraph 50, the board's AOP only includes a one-year financial plan. This is not ideal given the ever-increasing financial challenges and most business decisions have long term implications. The board has however developed a five year forward look in terms of the board's financial position which we understand is in line with the national finance framework due to be published shortly. This sets out future funding assumptions, the changes arising from national priorities and policies and the key issues for the board in maintaining financial balance. This position has been consolidated into a five year forward plan for the North of Scotland.
- 54.** Overall, we concluded that the board is facing a difficult financial situation in the short term. Longer term, this is exacerbated by the uncertainty around EU withdrawal and the impact of Scotland's new financial powers. There is scope for the board to do more scenario planning to support the development of its longer term strategy.

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## Recommendation 2

**The board should build on the five year forward look, develop the use of scenario planning and work with its regional partners to generate options for service redesign and a shift towards more recurring savings.**

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## Asset management

- 55.** NHS Grampian is required to manage its hospitals, community buildings and other assets, (e.g. medical equipment) effectively to ensure patients receive high quality care. The board's annual Property and Asset Management Strategy (PAMS) provides information on the condition of the board's estate.
- 56.** In 2014, the board approved a significant 4 year backlog maintenance programme which is on schedule to be concluded by the end of 2018. Approximately £10m was incurred in 2017/18 with another £5m planned in 2018/19.

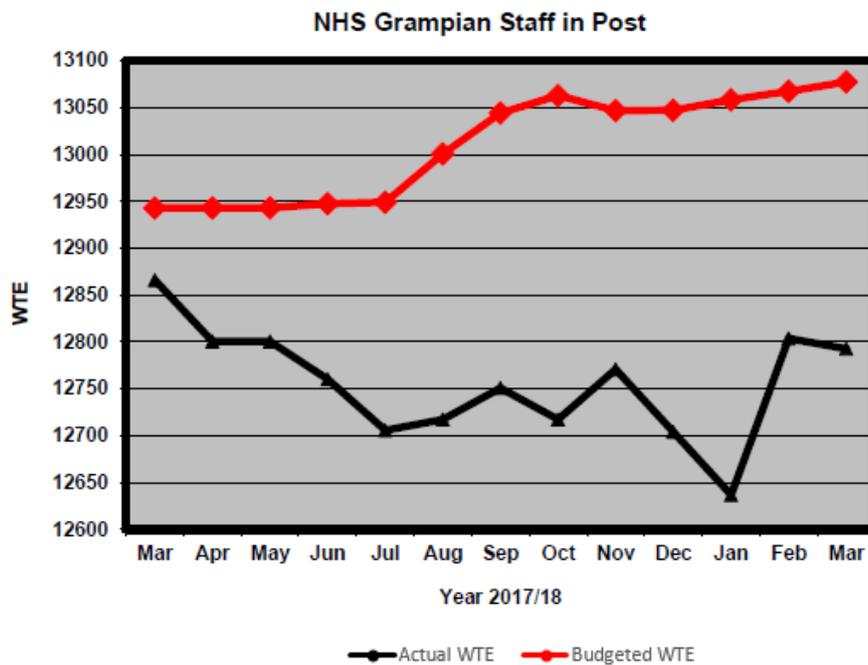
## Workforce planning

- 57.** In July 2017, the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce Planning. It highlighted that while NHS staff numbers are at their highest ever level, there are key issues including an ageing workforce, vacancy rates, increased spending on agency staff and high sickness absence levels. NHS Grampian is experiencing most of these issues. For example:
- As at 31 March 2017, 29.1% of the overall workforce was aged over 55. In particular, 30.2% of the nursing workforce and 34.7% of healthcare scientists are aged over 50.
  - As illustrated in [Exhibit 7](#), there has been a decline in the board's actual staff numbers from 12,866 WTE in March 2017 to 12,793 in March 2018. The difference between actual and budgeted WTE widened during 2017/18 with the month of January seeing the highest gap. In March 2017, the actual position was 77 short of budget and by March 2018, the shortfall had grown to 284 below budget.

- 58.** NHS Grampian is aware of its staffing challenges and has been actively pursuing a number of initiatives during the year. It continues to monitor the age profile of its workforce, to invest in its 'return to practice' programme and to support nurses and midwives wishing to remain in post beyond retirement age. In addition, it is taking innovative steps, including a recent international recruitment drive, to increase levels of recruitment and retention. Whilst workforce challenges remain a significant and serious issue for the board, it is to be commended on its varied and innovative approaches to address matters.
- 59.** The board is also experiencing significant challenges in recruiting and retaining staff in certain areas, with a large proportion of vacancies in Allied Health Professionals, Nursing and Midwifery and Medical staffing exceeding three months. To support the recruitment of nursing staff, NHS Grampian has strengthened its links with Robert Gordon University. It has also been working as an early implementer in relation to the Doctors and Dentists in Training (DDiT) shared services initiative, aimed at improving the lives of junior doctors. NHS Grampian has identified several recruitment priorities as part of its Recruitment Strategy 20:20, and will continue to promote its plans, including social media advertising, to attract people to live and work in the area.

## Exhibit 7

### Staff vacancies (WTE 2017-18)

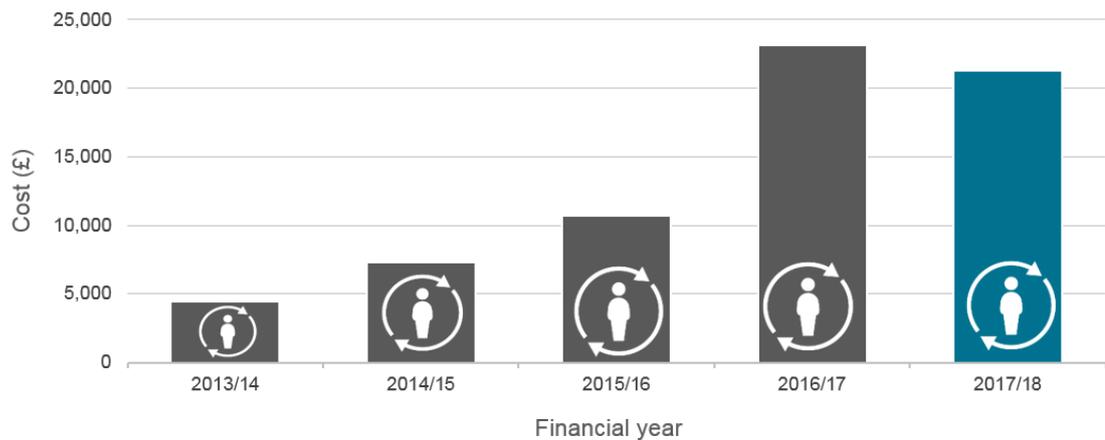


Source: NHS Grampian Financial Summary - Twelve Months ended 31 March

- 60.** While £1.6m lower than the previous year, expenditure on temporary staff is still at a high level compared to recent years as illustrated in [Exhibit 8](#). This is due to recruitment and retention problems and pressures to meet waiting time targets. Although temporary staff provide flexibility in the short term, it comes at a cost, with overall spending on temporary staff at £21.5m in 2017/18 (£23.1m 2016/17).
- 61.** The reduction in temporary staff spend compared with last year is attributed to lower locum medical staffing costs of £3.1m offset by higher agency and bank nursing costs. The increasing use of temporary nursing staff is putting pressure on the board's budget and does not represent value for money.

## Exhibit 8

### Temporary staff costs



Source: NHS Grampian's Annual Report and Accounts

## EU withdrawal

**62.** With the significant uncertainty brought about by the implications of EU withdrawal (i.e. Brexit), it is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

**63.** The board has identified EU withdrawal as one of its strategic risks and continues to engage with the Scottish and UK governments so its views and concerns can be considered. The board has already recognised from its workforce planning activities that it does not hold information to be able to identify all its employees from other EU countries and that there could be significant implications across its services.

**64.** The audit committee recently hosted a seminar to discuss the risks associated with EU withdrawal which was well attended and provided a useful framework for the board to plan and progress further work.

# Part 4

## Governance and transparency



### Main judgements

**NHS Grampian has appropriate governance arrangements in place that support scrutiny of decisions made by the board.**

**Improvements in financial and performance reporting were implemented in the year but further review is required to ensure reporting meets public interest expectations.**

**Action is required to mitigate high risks identified around IT and data security.**

### Regional Planning Arrangements

65. Since August 2017, the Chief Executive and Director of Finance were assigned additional responsibilities in the North of Scotland region as Regional Implementation Lead and Finance Lead respectively. A draft Regional Delivery Plan for the North of Scotland covering 2018-21 was prepared in autumn 2017 and following a period of consultation with stakeholders, it was submitted in final form to the Scottish Government in spring 2018. The plan acknowledges the significant financial and workforce challenges across the area and coupled with an increasing elderly population, it recognises the need to work collaboratively to implement change.
66. More recently, the Scottish Government requested both officers to assume interim roles as Chief Executive and Director of Finance at NHS Tayside in addition to their NHS Grampian responsibilities. This required changes to the leadership arrangements at NHS Grampian to ensure business as usual for the board. The Director of Nursing, Midwifery and Allied Health Professions was appointed as Acting Chief Executive to lead the day to day operations of NHS Grampian supported by the Director of Modernisation acting as Deputy Chief Executive. There is a risk that strategic direction at NHS Grampian is diluted which may adversely impact on the board's own performance and finances.
67. In our 2016/17 report, we commented on the potential risks ahead in financial capacity and experience due to the absence of formal long-term succession planning. While the finance department encourages staff development, where possible using cross cover and acting up opportunities, there is scope for more formal consideration of roles. With more opportunities for joint working and shared experiences likely from across the region, it may provide solutions to succession planning as well as challenges in terms of capacity for additional responsibilities.

## Governance arrangements

- 68.** The board operates within a governance framework which delegates specific functions to key sub committees namely: Clinical Governance, Staff Governance, Performance Governance, Audit, Engagement and Participation, Remuneration and Endowment. Each key governance committee is supported by a designated lead Executive Director who has the delegated management accountability for statutory and regulatory matters.
- 69.** Grampian Health Board provides strategic leadership and approves decisions in line with the Scheme of Delegation. It meets regularly and at each meeting, Committee chairs brief the board on key issues discussed at their last respective Committee meeting. In addition, Executive and Non-executive directors of Grampian Health Board are appointed to each of the three Integration Joint Boards (IJB) in Grampian. Chief officers of each IJB attend each meeting of the Grampian Health Board to provide updates to the board.
- 70.** All executive and non-executive directors have a formal annual appraisal which includes identifying their personal development needs. Executive directors have regular development sessions and board members hold a bi-monthly seminar on key topics. For example, the Audit Committee held a development session in March 2018 which focused on the impact of withdrawal from the EU on the board's strategic risk profile.
- 71.** From our attendance at board and committee meetings, we found that meetings are well attended, members are well prepared, ask appropriate questions and challenge information being presented. Sufficient time is normally allowed for discussion but if members feel they require more information, they suggest continuation of discussions at board seminars referred to above.

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

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## Transparency

- 72.** Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.
- 73.** There is evidence from a number of sources which demonstrate the board's commitment to transparency including the annual accountability review where members of the public can attend to hear about the board's performance during the year. Board meetings are open to the public and agenda papers are made available on the board's website. While committee meetings are held in private, committee minutes are publicly available on the board's website.
- 74.** Whilst we recognise that it is important for committees to have space to consider difficult and emerging issues, there is also a balance to be struck with serving the public interest. In our opinion, there is scope for the board to review the level and frequency of financial and performance information which is made publicly available.
- 75.** At paragraph 28, we commented on the use of signposting and links to key governance documents as a means of streamlining the detail provided in the board's governance statement. To assist in this process, the board should review and update the corporate governance documents it makes available on its website.

## Risk management

- 76.** We reviewed the board's risk management arrangements in accordance with International Standard on Auditing (UK) 315 (Identifying and assessing the risks of material misstatement through understanding the entity and its environment). We noted that the board's Risk Management Strategy expired in 2015. In September 2016, the board refreshed and updated its strategic risks and agreed a programme to transform the approach to risk within NHS Grampian. In October 2017, the board agreed a series of steps to embed the new approach across the organisation including to:
- update the Risk Management Strategy and policy to support the new approach
  - update the strategic risk register
  - develop a risk management implementation plan to support the rollout of the revised approach across the organisation
  - align risk management with new quality metrics recently approved by the board.
- 77.** While the Performance Governance Committee continued to review the Strategic Risk Register in its old format, there is little evidence of progress with the above actions agreed by the board in October 2017.
- 78.** Given the nature of the board's business, i.e. to provide healthcare that is safe, timely and affordable in a changing environment, it is important that the board is aware of its business risks and the controls it has put in place to mitigate and manage these risks.

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### Recommendation 3

**The board should progress the actions it agreed in respect of its risk management arrangements to ensure that strategic risks are being monitored and managed appropriately.**

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## Internal audit

- 79.** The board's internal audit function is carried out by PricewaterhouseCoopers (PwC). Each year we consider the work of internal audit when planning and conducting our own audit work.
- 80.** In accordance with Public Sector Internal Auditing Standards, an independent external review of the board's internal audit arrangements was carried out in February 2018, by the Chartered Institute of Internal Auditors. The review concluded that the service 'generally conforms' to 52 out of the 64 standards. There was partial conformance for a further 6 standards and the final 6 are currently not applicable.
- 81.** The report highlighted: "This is better than average performance and places internal audit (IA) in the top half of the reviews we have conducted. There are no immediate concerns or weaknesses and with continued improvement an even higher standard can be achieved." Where improvement is recommended, this consists mainly in developing better links between the board's risk management arrangements and internal audit work. The board and PwC have agreed to implement the relevant recommendations.

## Financial and performance reporting

- 82.** Detailed review of performance is delegated to the Performance Governance Committee. In our Report on the 2016/17 Audit, we commented that whilst discussions of the financial position take place at board seminars, the only information on the financial position routinely considered by the board in public session is a high level financial summary contained within the board's Performance Report. This is also the only routine performance report that can be accessed by a member of the public who is interested in how the board is performing and managing its finances. In our opinion, the full Performance Report should be made available on the board's website.
- 83.** We also suggested improvements in the report considered by the board e.g. to include a snapshot report of key performance indicators with trend information. Although separate from the formal reporting to the board, all executive board members receive a weekly performance report which includes a comprehensive range of performance charts and sector/service commentaries. This information is subsequently used in presentations at board seminars.
- 84.** On alternative months, board seminars are held which provide an opportunity for detailed discussion on selected topics. Examples from 2017/18 include winter performance information and challenges around managing planned care. We also noted an increased focus on the development of quality indicators during the year. In overall terms, the board approved four quality ambitions and work is in progress to develop quality indicators in each of these areas. Ambitions include:
- no preventable deaths
  - continuously seek out and reduce harm
  - achieving the highest reliability for clinical care
  - delivering what matters most.
- 85.** The board has made helpful improvements in its reporting during the year but with ongoing financial and performance challenges and increasing expectations around openness and transparency, the board should continue to review the range and effectiveness of information being produced. On finance, for example, use of earmarked funds could be highlighted along with reasons for slippage in the use of funds and impact of delay on intended area/initiative.

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### Recommendation 4

**The board should continue to review the range and effectiveness of its financial and performance reporting and ensure its reporting arrangements meet public interest expectations.**

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## National Fraud Initiative

- 86.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.
- 87.** The latest NFI exercise was carried out during 2017. At March 2018, NHS Grampian had reviewed in excess of 70% of its data matches. Overall, 16 errors with a value of £79,960 were identified and all relate to duplicate accounts payable invoices. There have been no identified instances of fraud and where appropriate, monies have been recovered.

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

- 88.** The board has a range of established counter fraud and irregularity procedures including policies for Voicing Concern (Whistleblowing) and for the Prevention, Detection and Investigation of suspected Fraud, Theft and Corruption, and its Codes of Conduct for members and employees. We found these policies to be appropriate, current and readily available on the staff intranet.
- 89.** We concluded that the board has appropriate arrangements in place for the prevention and detection of bribery and corruption. In addition to their Voicing Concern (Whistleblowing) Policy, NHS Grampian have appointed a board member as Whistleblowing Champion. As well as having ready access to relevant policies on the staff intranet, staff are regularly reminded of the standards of conduct via email updates and team briefings.

## IT Management

### Cyber security

- 90.** In November 2017, the Scottish Government issued a Public Sector Action Plan on Cyber Resilience which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.
- 91.** In the past two years, Internal Audit has carried out three reviews around IT risks - Cyber Security Maturity Review, IT Disaster Recovery (Critical Systems) and IT Risks Diagnostics. Key findings included a fragmented approach to IT security, the lack of a dedicated governance forum to which IT can escalate cyber security issues and IT security metrics are not regularly reported to senior management. In terms of the IT Disaster Recovery, in the event of a major incident, the internal auditor identified risks that NHS Grampian would not be able to recover critical services in a timely manner. This could adversely impact the board's ability to provide clinical and administration services.

### General Data Protection Regulations (GDPR)

- 92.** The new GDPR came into force on 25 May 2018 and introduced a wide range of new rights for individuals in respect of their personal data. These include rights to be forgotten and to object to certain processing activities and decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the board incurring significant fines.
- 93.** In March 2018, the board's internal auditors assessed the board's compliance with GDPR in advance of the implementation date and reported two high risk findings in relation to the lack of a GDPR programme and plan, and insufficient training and awareness of the new regulations.

### Overall

- 94.** The Audit Committee has oversight of the above matters and has requested regular update reports. These risks have also been reflected in the board's governance statement and will therefore be kept under review.

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## Recommendation 5

**The board needs to address high risks identified in relation to its preparedness for cyber security and GDPR and progress development of an action plan to address other issues raised in recent IT audits.**

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# Part 5

## Value for money



### Main judgements

**NHS Grampian has an effective performance management framework in place.**

**The board has not met 16 out of 19 Local Delivery Plan standards.**

### Performance management

- 95.** The Scottish Government monitors how NHS Grampian performs against the targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the board's Local Delivery Plan (LDP). Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee.
- 96.** A detailed review of performance is carried out by the board's Performance Governance Committee. Performance is reported using 51 key indicators (19 LDP standards and 32 other performance indicators).

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

### Overview of service performance

- 97.** The board's performance against its 19 LDP Standards as reported to the Performance Governance Committee in May 2018 is summarised in [Exhibit 9](#).
- 98.** LDP standards are priority performance targets that are set and agreed between the Scottish Government and NHS Boards. NHS Grampian performs poorly against the current LDP standards, with sixteen (84%) categorised as red (i.e. targets outwith acceptable standards, being more than 5% below target).

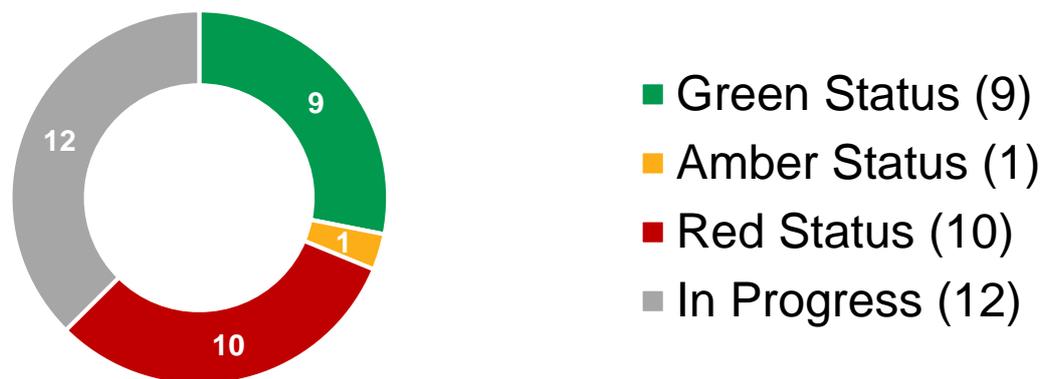
## Exhibit 9

### Overall performance - LDP standards



Source: Summary Performance Report for Performance Governance Committee, May 2018

### Overall performance - Other Performance Measures

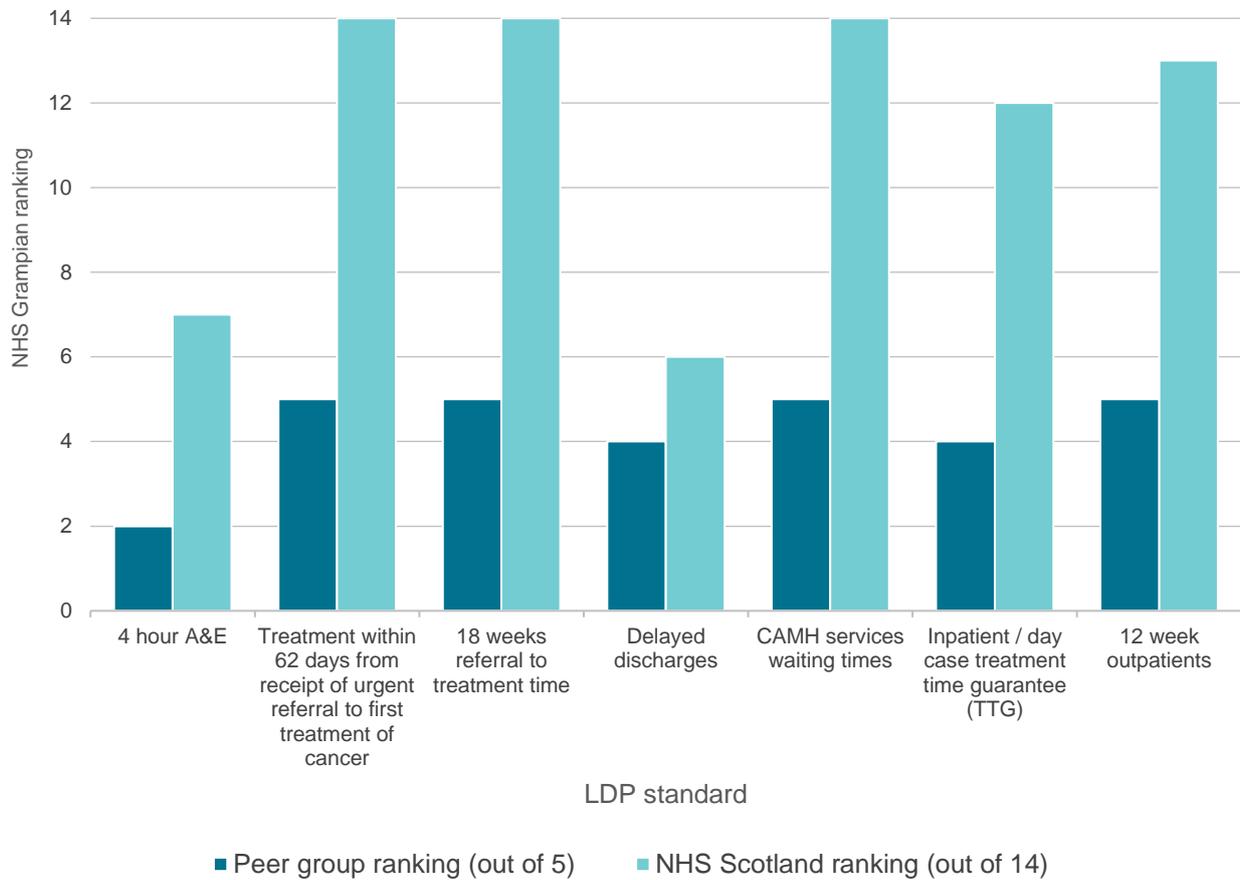


Source: Summary Performance Report for Performance Governance Committee, May 2018

- 99.** Where data is available, NHS Grampian's performance against other (non-LDP) targets is evenly split, with ten targets categorised as amber or green (targets at least 95% met, 100% met, or exceeded) and ten targets categorised as red (targets outwith acceptable standards).
- 100.** As highlighted in [Exhibit 10](#), we compared the performance of the board in a number of key standards against other territorial boards which NHS Grampian consider to be their peer group (i.e. NHS Greater Glasgow and Clyde, NHS Lanarkshire, NHS Lothian and NHS Tayside). We found that the board is the poorest performer in its peer group with respect to the 62 day waiting time standard for cancer care, the 18 week referral to treatment time standard for planned operations and care, child and adolescent mental health (CAMH) waiting times, and the 12 week waiting time standard for outpatient appointments. The board ranks better against its peers with respect to the 4 hour waiting time standard for unscheduled care.
- 101.** Exhibit 10 also includes the board's ranking against all NHS Scotland boards.

## Exhibit 10

### Key LDP standards – NHS Grampian ranking against peer group and all boards



Source: ISD Scotland.

Peer group ranking is out of 5, where 5 is the poorest performing. NHS Grampian ranking against all boards is out of 14 for all standards except Delayed Discharges (no data available on this standard for NHS Orkney and NHS Shetland). NHS Grampian is ranked 6<sup>th</sup> out of 12 NHS Scotland boards for Delayed Discharges.

## Exhibit 11

### Performance against key LDP standards

Standard/Target	Performance at March 2018	Action taken by Board
<b>4 hour A&amp;E</b> 95% of patients treated or admitted within 4 hours	98% <span style="color: red;">●</span> 94%	Testing of putting a divisional level triumvirate in place to support focus on unscheduled care performance started on 1 May 2017.  The six essential actions workstream continues with a focus on embedding dynamic daily discharge and associated flow improvement streams.  The daily safety brief and associated huddles are undergoing a number of iterative tests of change.

Standard/Target	Performance at March 2018	Action taken by Board
<p><b>Cancer care</b></p> <p>95% of patients begin treatment within 62 days of urgent referral</p>	<p>95%  80%</p>	<p>A multifaceted approach is being applied to improving performance in this area. Twice weekly meetings are held by medical staff, to monitor each patient on a cancer pathway. Plans are also in place to identify and address bottleneck areas within pathways. The presentation of a cancer strategy to the Board was made in April 2018. Work is ongoing to add capacity when possible and regular meetings are held with the Scottish government, to discuss all aspects of waiting time performance.</p>
<p><b>18 weeks referral to treatment time</b></p> <p>95% of patients waiting less than 18 weeks from referral to treatment</p>	<p>90%  66%</p>	<p>The Elective Care Programme continues to develop with significant areas of work being taken forward in relation to the improvement of elective care facilities, prioritisation of elective care activity, development of a “Target Operating Model” for each service, and improvement in efficiency to meet current and anticipated need.</p>
<p><b>Delayed discharges</b></p> <p>0% of patients with delayed discharge waiting more than 2 weeks (excl. code 9)</p>	<p>0%  51%</p>	<p>NHS Grampian continues to collaborate with the three IJBs in respect of the implementation of care at home models across Grampian. These are supported by continuous links between care sectors, and include a Virtual Community Ward in Aberdeenshire. The Board is acting to improve patient flow, including enhanced discharge planning and daily cross system patient safety ‘huddles’.</p>
<p><b>Child and Adolescent Mental Health Services (CAMHS) waiting times</b></p> <p>90% of patients seen within 18 weeks</p>	<p>90%  39%</p>	<p>Performance against this standard has been affected by increasing numbers of referrals and by the ongoing need to prioritise urgent and emergency referrals. NHS Grampian is one of only two NHS Scotland Boards that employ the Choice and Partnership Approach (CAPA) model with respect to CAMHS. This has been commended by the Mental Health Access Improvement Support Team (MHAIST), with whom the board continues to work to improve waiting times. In addition, NHS Health Improvement Scotland is reviewing the CAMHS service during April and May 2018, as part of the support being offered to the Board to assist in improving performance and evaluating the CAPA model. Proactive steps have been taken to increase staffing in the CAMH service area, and the Board has allocated a further £0.3m to the service in 2018/19 to further increase capacity.</p>
<p><b>Inpatient / day case treatment time guarantee (TTG)</b></p> <p>100% of patients waiting less than 12 weeks for treatment</p>	<p>100%  64%</p>	<p>The Board have committed funding to providing additional nursing staff, initially on short term contracts, to increase capacity for the first 6 months of 2018/19. Assumptions on funding availability from the Scottish government have been made pending the outcome of ongoing discussions. Longer term sustainability depends on new models of care being taken forward through the Elective Care programme and a</p>

Standard/Target	Performance at March 2018	Action taken by Board
<b>Outpatient waiting times</b>	100%  63%	wider population focus on prevention and self-care. Going forward, the Board are considering a range of options to assist with treatment provided regionally, including video conferencing. The independent sector is also being utilised.
100% of patients seen for outpatient appointment within 12 weeks following referral		In 2017/18, the Board have funded additional capacity via non-recurring funding and utilisation of the independent sector. Meanwhile, the Chief Executive continues to take forward the North of Scotland Elective Care Programme and, in the longer term, a comprehensive strategy is being designed to guide change at regional level. Short term action is aimed at harmonising access policies and pathways to move towards the standardisation of processes in all Board areas, and at determining how resources can be shared to contribute to minimising waiting times. In addition, a comprehensive redesign programme is being developed as part of the Grampian Elective Care Programme. The Board recognises that an underlying demand-capacity gap remains. In order to tackle this, it continues to progress several initiatives and work-streams, aimed at optimisation, transformation and improving processes across regional networks.

Source: ISD Scotland - Latest available figures are as at March 2018 except for Cancer care and CAMHS waiting times which are as at December 2017.

**102.** As in previous years, the board aims to deliver best results within funding available. Funding and recruitment challenges remain the biggest contributors to the board's poor performance against standards. While the board continues to find innovative ways to improve performance, we do not anticipate a significant change in the direction of travel in the near future without major re-design of services and further collaborative working.

### Shared services

**103.** The financial challenges facing the health service in Scotland are well documented. The speed at which substantial changes are needed within the NHS means that greater sharing of services between health boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 vision. In 2015, the Scottish Government established a transformational programme board including senior representatives from NHS boards to provide greater coordination across boards and various healthcare programme and initiatives.

**104.** The National Clinical Strategy emphasised the need for much improved levels of regional collaboration in the three health regions of NHS Scotland i.e. in the North, South East and West. The Scottish Government took a step towards the improvement of regional working by identifying one Chief Executive from each of the regions to be the Regional Implementation Lead.

- 105.** NHS Grampian's Chief Executive, Director of Finance and Director of Workforce have additional responsibilities within the North region, for their respective areas, to develop a revised structure for collaborative working in the North.
- 106.** In January 2017, the First Minister announced that there would be one single Scottish Trauma Network which comprises four regional networks working collaboratively with the Scottish Ambulance Service. Each of the networks will have one Major Trauma Centre (MTC), with the expectation that the MTCs in Aberdeen and Dundee would 'go live' in autumn 2018. The North of Scotland Trauma Network Implementation Plan spans the whole pathway of care from prevention to rehabilitation and recovery.
- 107.** It was reported to the board that good progress has been made in developing dedicated clinical leadership and management capacity, enhancing education across the network and collaborative working with the Scottish Ambulance Service. A work plan which has been agreed for the coming year to ensure that the NoS Network achieves the agreed key milestones. Key actions were incorporated in the NoS regional delivery plan.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement

 No.	 Issue/risk	 Recommendation	 Agreed management action/timing
1	<p><b>Annual Report</b></p> <p>The Annual Report could usefully include more narrative and assessment of the year under review.</p> <p><b>Risk:</b> The report does not sufficiently 'tell the story' for the year under review.</p>	<p>Arrangements for the preparation of the Annual Report should be reviewed to ensure there are processes in place to provide sufficient explanation of the results for the year to undertake regular assessment of the effectiveness of the board's governance framework.</p>	<p>The board has a variety of reporting mechanisms in place including a formal annual review process. The annual accounts exercise has historically been seen as an exercise to produce a set of accounts which form a published record of the board's financial performance rather than the comprehensive summary of board performance that is now required. This issue will be addressed in liaison with information and performance management colleagues as part of planning for the 2018/19 annual report and accounts.</p>
2	<p><b>Longer term planning</b></p> <p>The Annual Delivery Plan does not set out financial plans beyond 2018/19. In addition, the board has not met 16/19 LDP standards.</p> <p><b>Risk:</b> The board is not able to demonstrate how performance targets including financial balance will be achieved.</p>	<p>The board should build on the five year forward look, develop the use of scenario planning and work with its regional partners to generate options for service improvement and redesign and a shift towards more recurring savings.</p>	<p>The board will continue to work with its regional partners during 2018/19 to further develop the regional five year plan including the use of scenario planning.</p>
3	<p><b>Risk management</b></p> <p>While revised risk management arrangements were approved, there is a delay in implementation.</p> <p><b>Risk:</b> Strategic risks are not understood or managed appropriately.</p>	<p>The board should progress the actions it agreed in respect of its risk management arrangements to ensure that strategic risks are being monitored and managed appropriately.</p>	<p>The Senior Leadership team have agreed a series of actions to be implemented during 2018/19 which will ensure regular review and oversight of risk management arrangements at the right level.</p>

No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p><b>Financial and performance reporting</b></p> <p>There is scope to put more financial and performance information in the public domain.</p> <p>Risk: with increased public expectations about openness and transparency and the significant and financial challenges facing the board, there is a risk that scrutiny is not sufficient.</p>	<p>The board should continue to review the range and effectiveness of its financial and performance reporting and ensure its reporting arrangements meet public interest expectations.</p>	<p>The board continue to review and develop financial and performance reporting arrangements including public availability of information which will be considered in line with the Scottish Governments intention to publish NHS Grampian's financial performance monthly from June 2018.</p>
5	<p><b>IT management</b></p> <p>Internal audit has highlighted a range of risks in relation to IT management.</p> <p>Risk: the board may be exposed to significant data security threats.</p>	<p>The board needs to address high risks identified in relation to cyber security and GDPR and progress development of an action plan to address other issues raised in other IT audits.</p>	<p>Under the oversight of the Information Governance Steering Group the board is developing an action plan to address the requirements of the GDPR, which took effect on 25 May 2018, including an associated training and communications plan, a data inventory and assigned ownership of information assets.</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Focused testing of accruals and prepayments</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Journals are valid, transactions are regular and were processed by appropriate individuals</p> <p>Overall, accounting estimates are reasonable</p> <p>Cut-off testing did not find any significant transactions posted in the wrong year.</p> <p>There are no transactions which are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>NHS Grampian receives a significant amount of income in addition to Scottish Government funding. This includes Family Health Services (FHS) income, cash receipts and non-mainstream income generating activities. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure.</p>	<p>Analytical procedures on income streams/ expenditure transactions</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk</p> <p>Reliance on prior year judgements of key financial controls. Where systems have not changed from the previous year, ISAs permit us to take assurance from our previous year conclusions.</p> <p>Review HCL (locum) and NDC (stock) system</p> <p>Reliance on service auditors' review of the National Single Instance financial ledger, Practitioners Services Division and National IT services contracts</p> <p>Detailed testing of a sample of pay and non-pay expenditure transactions</p> <p>Review of the board's National Fraud Initiative matches investigation.</p>	<p>Our testing of revenue expenditure found an invoice amounting to £0.53m (excluding VAT) representing a pre-payment for the next three years but was fully charged to revenue expenditure this year. We carried out further testing on similar transactions and result was satisfactory</p> <p>Our payroll testing of new starts found an error on the initial sample and again on the extended sample. Impact from extrapolation of errors is trivial</p> <p>Our review of the HCL and NDC system did not identify issues which would give rise to risk of material misstatement in the accounts</p> <p>The service auditor reports did not identify any significant findings</p> <p>See paragraphs 86-87 regarding our findings on NFI.</p> <p>Our work did not find any fraud over income and expenditure.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Review of property valuer's report covering land and buildings</p> <p>Reliance on "the work of management expert" in respect of the property valuer</p> <p>Review accounting treatment of property revaluation and backlog maintenance to ensure it accords with FReM</p> <p>Review the basis and calculation of provisions for bias and subjectivity e.g. the reasonableness of backdated holiday pay calculations to meet 'paid as if at work' regulations</p> <p>Reliance on "the work of the Central Legal Office (CLO) as management expert" in respect of provisions of clinical negligence and other claims.</p>	<p>We concluded that the revaluation of land and building is fairly stated</p> <p>We concluded that the accounting for the backlog maintenance is in accordance with FReM</p> <p>We concluded that the information from the DV and CLO can be relied on as audit evidence</p> <p>We concluded that the payments of "paid as if at work" during the year and accrual at year-end are reasonable.</p>
<p><b>4 Changes to the format of the financial statements</b></p> <p>In 2017/18, there are changes to some of the notes supporting the board's income and expenditure. There is a risk that the financial ledger is not capable of producing the financial information in line with the new format required by the NHS board manual for the annual report and accounts.</p>	<p>Hold regular discussions with Finance officers on progress with assurance provided</p> <p>Review mapping of the ledger to the financial statements to ensure it is in line with the 2017/18 NHS board manual for annual report and accounts</p> <p>Ensure that prior year figures have been restated as appropriate</p> <p>Perform analytical review procedures.</p>	<p>We are satisfied that the ledger is fully mapped to the figures in the financial statements in line with the new format of the accounts</p> <p>Presentation of prior year figures was also changed where appropriate</p> <p>Results of our analytical procedures were satisfactory.</p>
<p><b>5 Group accounts and IJB balances</b></p> <p>NHS Grampian's group accounts need to be signed off by 30 June while the deadline for IJB accounts is 30 September. There is a risk that the board will not meet its statutory reporting deadline and/or financial targets.</p>	<p>Hold early discussions with Finance officers on the planned timetable for group accounts and expectations of its group accountants</p> <p>Obtain component auditor's assurance in respect of the Endowment Funds accounts.</p>	<p>One of the IJBs had amended the deficit previously advised to NHS Grampian which required an adjustment to NHS Grampian's draft accounts. Draft accounts for two of the three IJBs were received late in the process.</p> <p>Reconciliations between NHS Grampian and IJBs were concluded satisfactorily but were delayed by some late information and complicated audit trails.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>6 Accounting for major capital investments</b></p> <p>The board's capital plan includes a number of complex major projects. There is a risk that the accounting treatment does not accord with FReM leading to material misstatements in the financial statements.</p>	<p>Focused substantive testing on major capital transactions. For example: carbon energy lease, Inverurie and Foresterhill health centres financed using Design, Build, Finance and Maintain projects, Baird and Anchor projects and major backlog maintenance</p> <p>Review accounting treatment of impairment/ capitalisation and for disposal of major assets to ensure the amounts, classification and periods are correct.</p>	<p>We confirmed that the accounting for property plant and equipment movements (additions, transfers, disposals and impairment) accord with guidance and were posted in the correct year.</p> <p>We concurred with the accounting treatment for the carbon energy scheme as an operating lease.</p>

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

<p><b>7 Financial position</b></p> <p>The board aims to reduce spending by reducing the use of locums and agency staff and reviewing non-compliant junior doctor rotas and bank nursing.</p> <p>While the financial position at the mid-year point is better than the previous year and a break-even position is projected for the year end, the improvement is largely due to financial flexibility provided by monies received which cannot be used as intended in the current year.</p> <p>The board has recognised that the scale of the funding gap beyond the current year will require significant transformation in service delivery.</p> <p>The board faces significant financial challenge in delivering financial sustainability beyond the current financial year. There are risks that the scale of change required cannot be delivered in the necessary timeframe. Also, there are additional risks associated with the UK's departure from the EU, the lifting of the 1% pay cap and the impact of 'paid as if at work' regulations which are not yet quantified.</p>	<p>Review finance reports and monitor progress</p> <p>Review finance reports to committee/board and assess if form and content allow for effective scrutiny by members and timely corrective actions to be taken</p> <p>Hold regular discussions with senior officers to understand how the board is managing cost pressures and monitoring efficiency savings targets</p> <p>Review how the board is responding to Audit Scotland's recommendations on Workforce in the NHS and comment in our Annual Audit Report as appropriate</p> <p>Review workforce updates to committee/board and the work of the Local Medical Group and Bank Nursing Group to assess progress in reducing the use and costs of such staff.</p>	<p>The board met all its statutory targets. However, this was only made possible through the use of non-recurring measures</p> <p>The board achieved its savings target of £27.7m, £18.3m or 66% of savings were achieved on a recurring basis with the remainder of £9.4m or 34% on a non-recurring basis</p> <p>Medical locum costs during the year reduced by £3.1m. Nursing pay is overspent due to continued high dependence on agency and bank nurses.</p>
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Audit risk	Assurance procedure	Results and conclusions
<p><b>8 Health and social care</b></p> <p>There is a risk that governance arrangements are not operating effectively to enable the board and IJBs in partnership to demonstrate how a shift in the balance of care from hospital to community settings is being planned and progressed.</p>	<p>Review internal audit report on IJBs – performance reporting and KPIs</p> <p>Review evidence of how the board assures itself that IJBs are making an impact on the quality of healthcare of the people in Grampian</p> <p>Review the development and implementation of locality and workforce planning</p> <p>Review evidence of the board’s consideration of IJB objectives in developing its long-term capital investment strategy/asset management plan</p> <p>Assess how the board is working with and supporting the SG to develop a national capital investment strategy that supports moving care into the community.</p>	<p>The board receives regular updates on key issues and developments affecting the IJBs.</p>
<p><b>9 Finance department succession planning</b></p> <p>The finance department has a mature workforce. There is a risk that succession planning is not done effectively resulting in loss of knowledge and expertise within the department.</p>	<p>We will review the actions being taken by the department to ensure transfer of knowledge, skills and experience within the team.</p>	<p>The finance department does not have a formal long-term succession plan. The uncertainties around regional working also make it difficult for the department to plan into the future. In the meantime, acting up roles are done when opportunities arise to facilitate transfer of knowledge, experience and skills.</p>
<p><b>10 Performance against Local Delivery Plan (LDP) standards</b></p> <p>The board continues to struggle to meet LDP standards such as waiting times, Child and Adolescent Mental Health Services (CAMHS) and cancer access. The board has taken the approach to deliver the best services within available resources. The board has considerable exposure to reputation and clinical risks which may also lead to financial risks as a result of more clinical negligence claims.</p>	<p>Review performance reports to committee/board and assess if form and content allow for effective scrutiny by members and timely corrective action to be taken</p> <p>Attend board meetings to assess the level of scrutiny and challenge by members</p> <p>Follow up action agreed by the board in response to our 2016/17 Annual Audit Report recommendations for improved transparency of performance reporting.</p>	<p>Refer to Part 5 of this report.</p>

# Appendix 3

## Summary of uncorrected misstatements

The table includes all uncorrected misstatements that are individually greater than our reporting threshold of £100,000.

No.	Description	SoCNe	SoFP
		Dr (Cr) £'000	Dr (Cr) £'000
1.	PECOS accrual erroneously debited to Prepayments		
	Trade and other payables		645
	Trade and other receivables		(645)
2.	Invoices raised which are doubtful of collection erroneously credited to		
	Trade and other payables		563
	Trade and other receivables		(563)
3.	Invoice for software licence for next three years erroneously charged to operating expenditure for 2017/18		
	Trade and other receivables		532
	Other healthcare expenditure	(532)	
4.	Under-accrual of prescribing expenditure		
	Drugs and medical supplies	466	
	Trade and other payables		(466)
	To recharge amount to the IJBs		
	Trade and other receivables		86
	Trade and other payables – (Aberdeen City and Moray)		264
	Income for services commissioned by the IJBs	(350)	
5.	Overstatement in accrual of PAIAW		
	Trade and other payables		183
	Staff costs	(183)	
6.	Net overstatement of various accruals of expenditure which are trivial individually		
	Trade and other payables		141
	Other healthcare expenditure	(141)	

No.	Description	SoCNe	SoFP
		Dr (Cr)	Dr (Cr)
		£'000	£'000
7.	Invoice incorrectly included as a prepayment rather than expenditure		
	Expenditure	210	
	Prepayments		(210)
<b>Net Impact</b>			
	<b>Decrease in Net expenditure for the year</b>	<b>-530</b>	
	<b>Increase in Net assets</b>		<b>530</b>

Note: There is also an under-accrual of dental expenditure of £183,000 but since this is a non-cash limited transaction, the board gets reimbursed 100% by the Scottish Government which means there is no impact on SoCNE nor on the SoFP.

# NHS Grampian

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