

NHS Borders

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Borders Health Board and the Auditor General for Scotland

September 2021

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The audited part of the remuneration and staff report, performance report and governance statement are all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.
- 3 Due to accounting issues related to central Covid-19 expenditure and Endowment Fund balances, there was a three month delay in signing the accounts.

Financial management and sustainability

- 4 NHS Borders had appropriate financial management arrangements in place.
- 5 NHS Borders operated within its revised Revenue Resource Limit.
- 6 NHS Borders revised their budget setting and monitoring processes to reflect the additional expenditure and funding related to Covid-19.
- 7 In line with Scottish Government guidance NHS Borders developed a one-year financial plan for 2021/22. The pandemic has had a significant impact and this is still being evaluated over the medium/longer term.
- 8 Existing transformation/financial efficiency plans were paused in 2020/21 but are due to be restarted in September 2021.

Governance, transparency and value for money

- 9 Arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that NHS Borders has appropriate and effective governance.
- 10 IT infrastructure and resources require prioritisation to continue to improve service upgrades and enhance cyber security.
- 11 NHS Borders has published a remobilisation plan to address backlogs caused by the Covid-19 pandemic and how and when services will be restored.

- 12** NHS Borders has adapted its performance management framework to support the Scottish Government's Clinical Prioritisation Framework.
- 13** Performance will continue to be challenging in 2021/22 due to the Covid-19 response and progressing remobilisation plans.

Introduction

1. This report summarises the findings from our 2020/21 audit of Borders Health Board (referred to as ‘NHS Borders’ or ‘the board’ throughout). The scope of our audit was set out in our Annual Audit Plan presented to the 22 March 2021 meeting of the Audit Committee. This report comprises the findings from:

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

2. The main elements of our audit work in 2020/21 have been:

- an audit of NHS Borders’ 2020/21 annual report and accounts including the issue of an independent auditor’s report setting out our opinions
- a review of NHS Borders’ key financial systems
- consideration of the four audit dimensions.

3. The coronavirus pandemic has had a considerable impact on NHS Borders during 2020/21. This has had significant implications not least for the services it delivers but also for the costs of healthcare provision, sickness absence levels, and the suspension of non-essential projects and activities. Our audit approach in 2020/21 was adapted to working in a ‘lockdown’ environment, with the audit of the accounts conducted remotely, which was the same approach as the previous year.

Adding value through the audit

4. We add value to NHS Borders through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([*Appendix 4*](#)) and good practice guides.

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

Responsibilities and reporting

- 6.** NHS Borders has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.
- 7.** NHS Borders is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
- 8.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 9.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

- 11.** Auditors appointed by the Auditor General or Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.
- 12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £127,870, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 13.** This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The annual report and accounts is the principal means of accounting for the stewardship of resources and performance.

Main judgements

Our audit opinions on the annual accounts are unmodified.

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

Due to accounting issues related to central Covid-19 expenditure and Endowment Fund balances, there was a three month delay in signing the accounts.

Our audit opinions on the annual report and accounts are unmodified

14. The board are due to approve the annual report and accounts for the year ended 31 March 2021 on 29 September 2021. As reported in the independent auditor's report:

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

15. The draft accounts and working papers provided to support the accounts were much improved from last year and the audit team received good support from finance officers which helped ensure the audit process ran smoothly. The draft annual report and accounts were provided on 10 May 2021, in line with our agreed audit timetable. During the audit an emerging issue related to accounting for Personal Protective Equipment (PPE) and community testing kits required an adjustment to the accounts and further audit work (details are in [Exhibit 2](#)).

16. An issue was identified in the Endowment Fund accounts by management prior to their approval. As the Endowment Fund accounts are consolidated into the NHS Borders group accounts the decision was taken to delay the approval of the accounts until this issue was resolved. Following the end of the reporting period, the trustees of the Endowment Fund undertook a review of the accounting treatment applied to income and gains (or losses) arising from portfolio investments. This review was instigated in response to a question raised at the board of trustees meeting in May 2021. It was queried whether the current accounting treatment for income generated from portfolio investments was consistent with trustees' duties under charity law, with particular regard for the non-attribution of income and gains/losses to restricted funds. Having considered legal advice on this matter the trustees concluded that the approach previously in place was inappropriate and should be amended. In doing so, the trustees have determined that it is in the interests of the charity to amend prior year balances as far as is practicable to do so, being the current reporting period and the five preceding years.

17. The amendments to balances in the Endowment Fund accounts, including the post balance sheet cancellation of a capital project, do not have any impact on the balances consolidated in the NHS Borders accounts and therefore no further amendments or audit work was required to the accounts to address this issue. This issue resulted in a delay of three months in the approval of the accounts.

Overall materiality is £3 million

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

Exhibit 1 Materiality values

Materiality level	Planning amount	Revised amount
Overall materiality	£2.8 million	£3.0 million
Performance materiality	£1.2 million	£1.4 million
Reporting threshold	£55 thousand	£60 thousand

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

19. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

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

- 20.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.
- 21.** The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Personal Protective Equipment (PPE) and Community Testing kits</p> <p>NHS National Services Scotland (NSS) was centrally responsible for ordering appropriate PPE and community testing kits and issuing them to NHS Boards for use within their local area. This was done at no additional cost to the NHS Boards. Audit Scotland has reviewed this arrangement and concluded that the provision of PPE and testing kits should be treated as non-monetary grants and as such the expenditure should be included in the NHS Boards' accounts.</p> <p>A revised funding allocation was issued to cover the increased expenditure at the Board.</p>	<p>NHS Borders recognised £3.9 million in costs relating to the PPE and community testing kits.</p> <p>We have reviewed supporting documentation for these costs and we are satisfied the figures fairly represent the value of goods received from NSS in 2020/21 and are appropriately reflected in the revised accounts.</p>
<p>2. Share of Integration Joint Board results</p> <p>The board's share of the Scottish Borders Integration Joint Board's (IJB) results is required to be accounted for on an equity basis and included within the board's financial statements.</p> <p>The share of the IJB's results were not included in the draft version of the accounts submitted for audit as the unaudited IJB accounts were not yet available due to the timescale for Local Authority accounts production.</p>	<p>NHS Borders' audited accounts include the share of the IJB's unaudited financial position at the year end. This decreased net expenditure in the statement of consolidated comprehensive net expenditure by £3.2 million. Assets in the statement of financial position were increased by £5.1 million for the share of the IJB assets, with a corresponding increase in taxpayers' equity for the share of IJB reserves.</p>

Source: Audit Scotland

Identified misstatements of £12.2 million were adjusted in the accounts

- 22.** Total misstatements identified in [Exhibit 2](#) above were £12.2 million.

23. The adjustment mainly relate to the accounting treatment for the board's share of integration joint board results and for PPE and community testing kits referred to in [Exhibit 2](#). We are satisfied these are isolated issues that do not indicate further systematic errors in the accounts, therefore our audit approach was not modified.

24. Adjustments made in the accounts, as a result of the above, increased net expenditure in the Statement of Comprehensive Net Expenditure by £0.5 million. There was an increase of £3.2 million due to the inclusion of PPE and community testing kits which was matched by an additional funding allocation from the Scottish Government. In addition, £0.6 million of testing kits provided by the UK Government were included as donations in the accounts. The decrease of £3.2 million due to the share of the IJB results is removed in the summary of core revenue outturn so does not impact on the outturn against the revenue resource limit.

25. The timing of these adjustments was dictated by the availability of appropriate information from NHS NSS for the PPE and community testing kits and from the unaudited 2020/21 IJB Annual Accounts for the IJB results. Both elements of information were not available to NHS Borders at the start date of this year's audit on 10 May.

26. A further £5.1 million of adjustments were identified relating to reclassification of accounting entries and did not impact on the RRL outturn. These adjustments related to income tax and social security accrual (£2.4 million of pay elements paid one month in arrears) and other public bodies accruals (£2.7 million) which had been included within other payables within the trade payables note in error. These were reclassified to the correct trade payables account code in the final audited accounts.

27. We identified some disclosure and presentational adjustments during our audit which were agreed with management and have been reflected in the final set of audited accounts.

28. It is our responsibility to request that all misstatements, other than those below the reporting threshold (£60,000), are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. One misstatement was identified which has not been adjusted in the accounts by management. An asset with a value of £235 thousand was included within Assets under Construction in note 7a to the accounts. The Board confirmed this asset was partially operational by March 2021 and was being operated in tandem with the existing asset management system hence its classification as an asset under construction at 31 March 2021. As the asset was partially in use it should have been included as an asset within Information Management & Technology. There is no impact on the total value of assets included within the statement of financial position.

Progress was made on prior year recommendations

29. NHS Borders has made limited progress in implementing our prior year audit recommendations. Actions not yet implemented, revised responses and timescales agreed with management are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

NHS Borders had appropriate financial management arrangements in place.

NHS Borders operated within its revised Revenue Resource Limit

NHS Borders revised their budget setting and monitoring processes to reflect the additional expenditure and funding related to Covid-19

NHS Borders operated within its Revenue Resource Limit (RRL)

30. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which NHS boards are required by statute to work within. With effect from 2019/20, the Scottish Government introduced a new approach to financial planning and target setting. This removes the requirement for boards to achieve financial balance annually and instead boards are required to achieve a break-even position over a rolling three-year period. NHS boards can exercise annual flexibility within 1% of their revenue resource limit.

31. The Scottish Government paused the normal financial planning arrangements under the Scottish Government's Health and Social Care Medium Term Financial Framework due to the pandemic and announced that all Health Boards would be fully funded in 2020/21.

32. [Exhibit 3](#) shows that actual expenditure was lower than forecast and as a result NHS Borders reported a small underspend.

Exhibit 3**Performance against resource limits in 2020/21**

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	284.72	284.59	0.13
Non-core revenue resource limit	6.77	6.77	0
Total revenue resource limit	291.49	291.36	0.13
Core capital resource limit	5.79	5.79	0
Cash requirement	286.10	286.10	0

Source: NHS Borders Annual Report and Accounts 2020/21

The board has moved to level 3 in the NHS Performance Framework

33. NHS Borders continues to face significant financial challenges and was at Escalation Level 4 in the NHS Scotland Performance Framework during 2020/21. Level 4 is described in the Framework as ‘Significant risks to delivery, quality, financial performance or safety; senior level external support required’. From April 2021 the board has been moved to level 3 in the Framework. Level 3 is described as ‘Significant variation from plan; risks materialising; tailored support required’. While moving to level 3 escalation indicates that significant challenges remain, the de-escalation demonstrates that the board is making progress in addressing these.

Budget processes were appropriate. There was a significant financial impact due to Covid-19

34. We examined NHS Borders' budget monitoring arrangements. From our review of budget monitoring reports, committee papers and attendance at committees we confirmed that senior management and Board members receive regular, timely and up to date financial information on the board's financial position. The budget monitoring reports presented to each Board meeting clearly show the extent of the board's reliance on non-recurring savings and the content and format of the reports allow members to perform their scrutiny role.

35. The Annual Operational Plan agreed by the Board in April 2020 shows an overall budget for 2020/21 with a forecast deficit of £18.1 million for the year. It was anticipated that the board would require brokerage of £7.9 million to achieve a breakeven position. In February 2021 the Scottish Government announced they would fund the non-achievement of savings in 2020/21, therefore brokerage was not required for 2020/21.

36. As part of the NHS re-mobilisation exercise, boards estimated the financial impact of the pandemic. This included increased costs for Covid-19 related

activity and decreased costs due to reduced demand in other areas, and loss of income. These estimates were kept under review and reported in published plans to the Scottish Government on a regular basis.

37. Additional funding from the Scottish Government for Covid-19 totalled £16.8 million for NHS Borders as shown in [Exhibit 4](#). Direct Covid-19 related expenditure was tracked using specific account codes in the general ledger and disclosed in the accounts. The £16.8 million included additional allocations of £7.4 million to cover the non-delivery of savings.

Exhibit 4 **Covid-19 Costs compared to outturn**

	Core outturn (£m)	Covid-19 (£m)	Savings (£m)	Total (£m)
NHS Borders outturn excluding Covid-19 support	(5.5)	13.2	(9.0)	(1.3)
Covid-19 Additional Allocations	0	(9.4)	7.4	
Outturn	(5.5)	3.8	(1.6)	(0.1)

Source: NHS Borders annual report and accounts

£9.1 million of efficiency savings were achieved

38. In its original budget for 2020/21, NHS Borders was required to make efficiency savings of £11.7 million. £9.1 million of savings were achieved despite the pandemic, however these are largely on a non-recurring basis, with only £1.6m (18%) achieved on a recurring basis.

Financial systems of internal control are operating effectively

39. No significant internal control weaknesses were identified during the audit which could affect NHS Borders's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

40. Our audit work did identify some issues with internal controls, including:

- Payroll - out of 15 starters tested, one starter form had been authorised by an approver who was not on the list of authorised approvers and one approver had only been added to the list of authorised approvers 10 months after the form had been completed.

- General ledger - 4 out of 8 user access changes for general ledger users were not supported by an email to the finance mailbox but had been identified through other means.
- Accounts payable - it was identified that one invoice from our sample which was raised through purchasing system, PECOS, had not gone through the regular approval process and was processed with manual approval outwith the PECOS system due to an error in the way the approval plan had been set up in PECOS. We confirmed that this error only related to a small population and the plan has now been corrected.
- Accounts receivable - the audit trail in respect of the debtor request could be improved by ensuring that where the invoice request is not made using the debtor request form, the email submitting the request should be saved alongside the supporting evidence for the invoices raised.

41. These issues were communicated to management in May 2021. We were satisfied that they did not impact on the overall audit approach due to the limited area affected and other mitigating controls in place. However management should ensure that issues are carefully considered and addressed.

Recommendation 1

We recommend that NHS Borders takes action to address the weaknesses in the system of internal control in 2021/22.

Shared systems

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

43. We have considered the assurances provided in the service auditors' assurance reports along with any associated external audit reports. The service auditor assurance report in relation to the National Single Instance eFinancials service was unqualified.

44. In 2019/20 the NHS NSS service auditor's assurance reports in relation to primary care payments and the national IT contract were both qualified due to areas where there was insufficient documentary evidence of verification and reconciliation checks. The IT contract service audit does not have a qualified opinion in 2020/21. However, the service audit report on primary care payments continues to have a qualification.

45. Qualifications were made for four out of the five control objectives in the Practitioner and Counter Fraud Services – Non-Covid Payments ISAE 3402 Type II Report. The findings covered three main areas:

- Controls descriptions which do not correctly set out the tests being performed
- Lack of formal documentation and retention of the verification and reconciliation activities performed
- Lack of validation checks on ad hoc payments made outwith the routine processes.

46. NSS commissioned their internal auditor to conduct additional financial controls work on the ad hoc payments which gave a strong positive conclusion.

47. Additional disclosures have been added to the Governance Statement in the Annual Report and Accounts to describe local scrutiny and verification of payments to primary care contractors.

Internal audit complies with the PSIAS

48. NHS Borders' internal audit function is carried out by Grant Thornton. Internal Audit have concluded their 2020/21 audit work and presented their Annual Audit Report, which included the annual Internal Audit opinion, to the 15 June 2021 Audit and Risk Committee. The original internal audit plan was approved by the Audit and Risk committee in June 2020, with the original plan from March 2020 having been revised due to the Covid-19 pandemic.

49. The Internal Audit annual opinion concluded that partial assurance could be given on the overall adequacy and effectiveness of the board's framework of governance, risk management and control. This was due to identified non-compliance from their work, specifically around sample checking of waiting times records.

50. We reviewed the board's Internal Audit function to determine the extent to which we could use their work in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors). Our review concluded that Grant Thornton comply with Public Sector Internal Audit Standards (PSIAS) and have appropriate procedures in place regarding their methodology and quality arrangements.

51. We have not carried out any re-performance of their work or placed assurance on internal audit work for the purposes of our financial statements audit. We have placed assurance on internal audit's reports for reporting on the wider audit dimensions.

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

52. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. NHS Borders is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

53. We have reviewed the arrangements in place to maintain standards of conduct including Standing Orders, Standing Financial Instructions (SFI), operational procedures and a system of internal control and risk assessment. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

54. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NHS Borders has made good progress to investigate the identified matches and has regularly reported progress on the exercise to the Audit Committee. As reported in the June 2021 Audit Committee update, no frauds have been identified from the investigations completed to end May 2021. Investigations have covered 91% of the total matches which were issued to the Board.

3. Financial sustainability

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

Main judgements

In line with Scottish Government guidance NHS Borders developed a one-year financial plan for 2021/22. The pandemic has had a significant impact and this is still being evaluated over the medium/longer term.

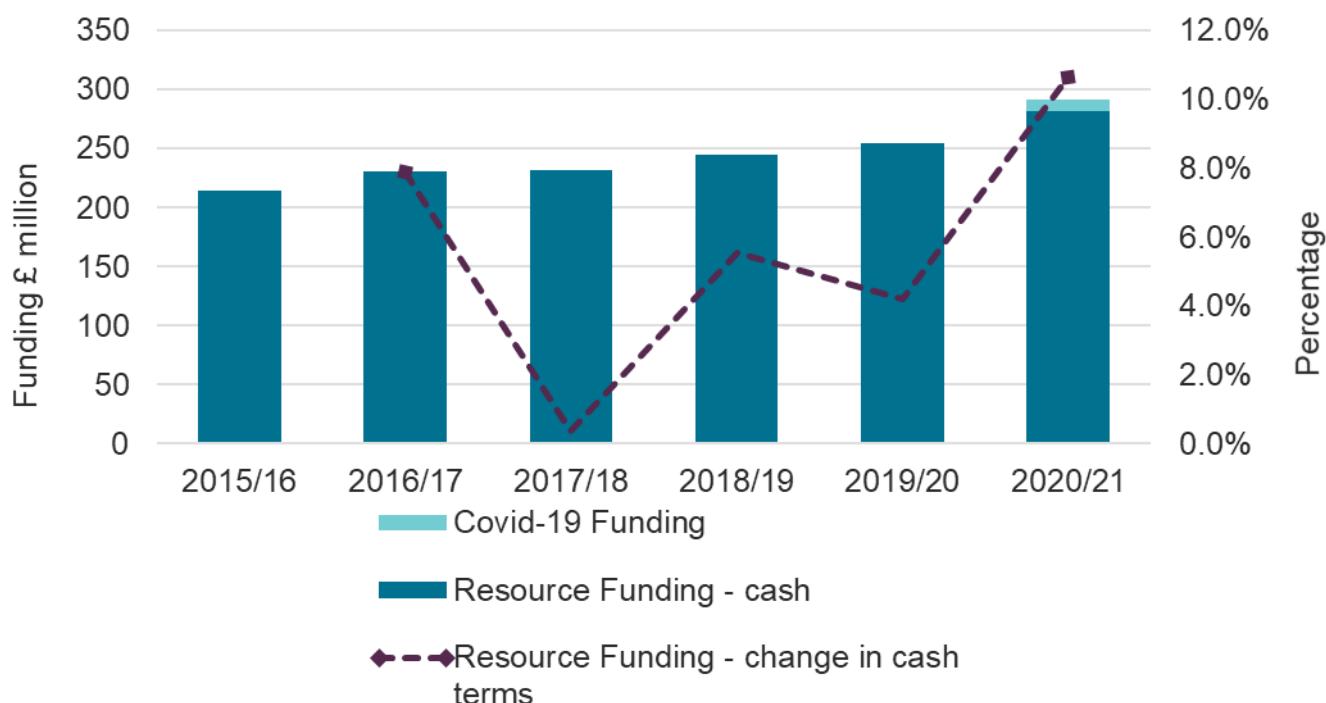
Existing transformation/financial efficiency plans were paused in 2020/21 but are due to be restarted in September 2021.

Additional Covid19 funding has driven a 10.6 per cent increase in revenue funding in cash terms

55. Revenue funding to NHS Borders in 2020/21 from the Scottish Government has grown by 10.6 per cent in cash terms compared to 2019/20 ([Exhibit 5](#)) with £9.4 million extra for Covid-19 in 2020/21, along with £7.4 million for unachieved savings during the year. The current 2021/22 Scottish budget includes a further rise in baseline funding for NHS Borders of £2.8 million (1.3%). A further £869 million of additional Covid-19 related funding will also be distributed across NHS Scotland in 2021/22.

Exhibit 5

Cash and real term core funding to NHS Borders has risen



Source: NHS Borders annual report and accounts / Audit Scotland

NHS Borders has prepared a one-year financial plan for 2021/22 as required by the Scottish Government and medium and long term financial plans should be revised following the Covid-19 pandemic

56. The requirement to produce three-year financial plans as part of the medium term financial framework has been paused due to the pandemic. NHS boards were asked to complete a one-year plan for 2021/22.

57. NHS Borders' 2021/22 financial plan was agreed by the Finance and Resources Committee in March 2021. The Board's forecast includes additional costs relating to Covid-19 and costs related to recovery and addressing service backlogs in other areas. Forecasts in the financial plan are based on a number of assumptions including allocation uplifts, inflationary costs and pay growth.

58. NHS Borders' remobilisation plan is supported by high level financial projections over a 1 year period. NHS Borders are planning to revise longer-term financial planning in September 2021. The board will need to consider the latest Scottish Government plans and requirements for their longer-term financial framework.

Transformation plans have been paused due to the pandemic

59. Prior to the pandemic, NHS Borders forecasts identified the need to achieve efficiency savings of £14.6 million by 2022/23 on a recurring basis. The forecasts also identified likely brokerage requirements of £15.9 million over the three years of the forecast. The plan identified an increase to the board's underlying (recurring) financial deficit. This figure is projected to increase from £14.3m at end March 2021 to £18.8m (before savings) during the twelve months to the end of March 2022. Recurring savings of £2.5m were estimated in the plan, resulting in a recurring deficit after savings of £16.3m.

60. NHS Borders suspended its Financial Turnaround Programme in March 2020 in order to allow resources to be redeployed to support emergency planning for the Covid-19 response. This position continues to be reviewed on an ongoing basis, with recognition that there remains a significant focus on the ongoing pandemic and its impact on healthcare delivery.

61. While there has been significant additional funding provided to NHS Borders in 2020/21 and 2021/22, this has been allocated as non-recurring funding and the need to restart service redesign programmes is likely to occur over the medium term. An indicative timescale has been set for remobilisation of Financial Turnaround activities in September 2021.

Recommendation 2

The board should develop longer term financial plans and prioritise re-starting the Financial Turnaround programme if financial balance is to be restored.

Additional financial support from Scottish Government will need to be repaid

62. The Scottish Government previously provided additional financial support to NHS Borders in the form of brokerage which was due to be repaid in future years, including £8.3 million in 2019/20. The timescales for repayment of this brokerage have not yet been agreed between NHS Borders and Scottish Government.

63. The Performance Report in NHS Borders accounts confirms the financial position of the board before and after the additional support was received as well as disclosing the extent to which this is in excess of the one per cent flexibility threshold.

4. Governance and transparency

Governance and transparency concerns the effectiveness of scrutiny and oversight, and transparent reporting of information.

Main judgements

Arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that NHS Borders has appropriate and effective governance.

IT infrastructure and resources require prioritisation to continue to improve service upgrades and enhance cyber security.

The governance arrangements and controls operating throughout the Covid-19 pandemic have been appropriate

64. We commented on governance arrangements in our 2019/20 Annual Audit Report. Our previous year's conclusion is still relevant, that 'there are satisfactory governance arrangements in place that support scrutiny of decisions made by the board'.

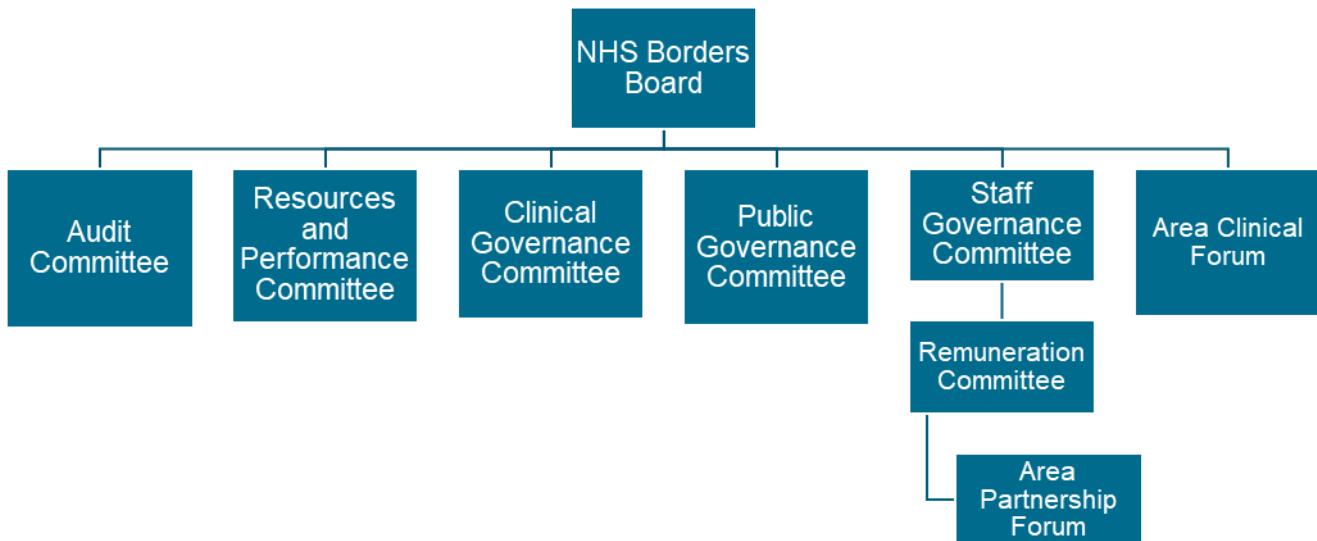
65. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in the board's annual report and accounts. We reported in last year's annual report on the revised governance arrangements introduced by NHS Borders including:

- A Pandemic Committee (Gold Command) was set up in March 2020 and met on a regular basis. Clinical Boards escalated any issues for resolution by the Committee. A Gold Command Decision Log is continuously updated noting all decisions taken.
- A Remobilisation Planning Group (RPG) was formed in April 2020 and continues to meet to coordinate the system wide response. The RPG and the business units continue to develop and refine plans for service recovery.
- The board and committees continued to meet, albeit in different formats. At first, some meetings were held either by teleconference or papers discussed via email exchanges. Home working arrangements and IT equipment were then more widely rolled out in early summer which has allowed board and committees to take place online.

66. The governance arrangements at NHS Borders are kept under review by the Board to ensure that they remain appropriate. This includes consideration

of arrangements for ensuring meetings are quorate and the admission of the public to meetings.

Exhibit 6 Governance structure at NHS Borders



Source: NHS Borders annual report and accounts

Openness and transparency

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

68. NHS Borders consider that it is not currently appropriate to convene meetings of the Board in public due to the measures put in place across the country to prevent the spread of Covid-19. However, members of the public can join the Board meetings online, with details of how to do this advertised on the board's website. Agendas and meeting papers are published on the website in advance of each Board meeting. We concluded that these arrangements are appropriate for the current situation.

NHS Borders have yet to agree a revised integration schemes with partners

69. The Public Bodies (Joint Working) (Scotland) Act 2014 required a review of the integration schemes by March 2021. A revised date of 31 March 2022 for the completion of the review of the Scottish Borders integration scheme has been agreed with Scottish Government.

Risk Management

70. In March 2020, Internal Audit performed a review of the Risk Management processes within NHS Borders. The report concluded that the processes provide a partial level of assurance over the Board's risk management arrangements, with improvement required. Several recommendations were made, one being a high-risk rating: "The Corporate Risk Register is incomplete and inaccurate because the risk management process is not being followed by all staff across the organisation." NHS Borders senior management acknowledged this recommendation and work is on-going to make the required improvements.

71. Bi-annual reports on risk management go to the Clinical Governance Committee and Audit Committee. An annual report on Strategic Risk goes to the Strategy & Performance Committee. A Risk Management Annual Report is taken to the Clinical Governance Committee, Clinical Exec Ops Group and Audit Committee. A revised 5-year Risk Management Strategy was approved by the Board in April 2021 which outlines the priorities for risk management at NHS Borders, supported by the Risk Management Policy, Protocol and guidance.

Cyber Essentials

72. A requirement of the Scottish Government's Cyber Resilience Plan is for all Public Authorities in Scotland to gain Cyber Essentials certification. Cyber Essentials is a self-assessment of an organisation's basic security controls that will protect against a wide variety of the most common cyber-attacks. NHS Borders is continuing to work towards achieving this accreditation. While this is being worked towards, there remains a risk that unsupported systems and aged servers remain in use.

Recommendation 3

The board should continue to work towards achieving the cyber essentials certification in order to reduce the risk from cyber-attacks.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

NHS Borders has published a remobilisation plan to address backlogs caused by the Covid-19 pandemic and how and when services will be restored

NHS Borders has adapted its performance management framework to support the Scottish Government's Clinical Prioritisation Framework

Performance will continue to be challenging in 2021/22 due to the Covid-19 response and progressing remobilisation plans.

NHS Borders' remobilisation plan has a series of actions designed to address backlogs caused by the Covid-19 pandemic and restore performance levels

73. The Scottish Government has requested NHS boards to produce and regularly revise Remobilisations plans (RMP) outlining plans for the restoration of normal health services.

74. The first iteration of NHS Borders RMP was submitted to the Scottish Government on 25 May 2020 followed by the second iteration on 31 July 2020.

75. NHS Borders have included a series of planned actions to address backlog/waiting times caused by Covid19. The RMP sets out the areas where the board will focus its collective responses and actions to address backlogs caused by Covid-19, recognising the ongoing uncertainty in relation to Covid-19. This work primarily relates to acute care and hospital services, more specifically cancer and scheduled care and progressing the regional programme. NHS Borders established a Remobilisation Planning Group (RPG) to coordinate the response and this group meets weekly.

NHS Borders has adapted performance monitoring and reporting to reflect the Clinical Prioritisation Framework

76. In November 2020 the Scottish Government published the Framework for Clinical Prioritisation providing guidance for prioritising elective care whilst ensuring appropriate Covid-19 safety and priority measures are in place. While the duties under the Patient Rights (Scotland) Act 2011 still apply, it is expected that the framework is the primary tool for monitoring service performance during the pandemic.

77. NHS Borders have adapted their internal performance reporting to reflect this and performance reports have been considered by the Performance and

Resources Committee and the Board regularly throughout 2020/21. Performance has been reported on a smaller suite of specific standards from the Annual Operational Plan (AOP), outlining the performance against previously agreed standards. These standards include: Delayed Discharges, Cancer Treatment and Sickness Absence; with a separate section included which shows the impact of the pandemic on the acute programme in terms of number of admissions to hospital, number of patient discharges, bed occupancy and length of stay.

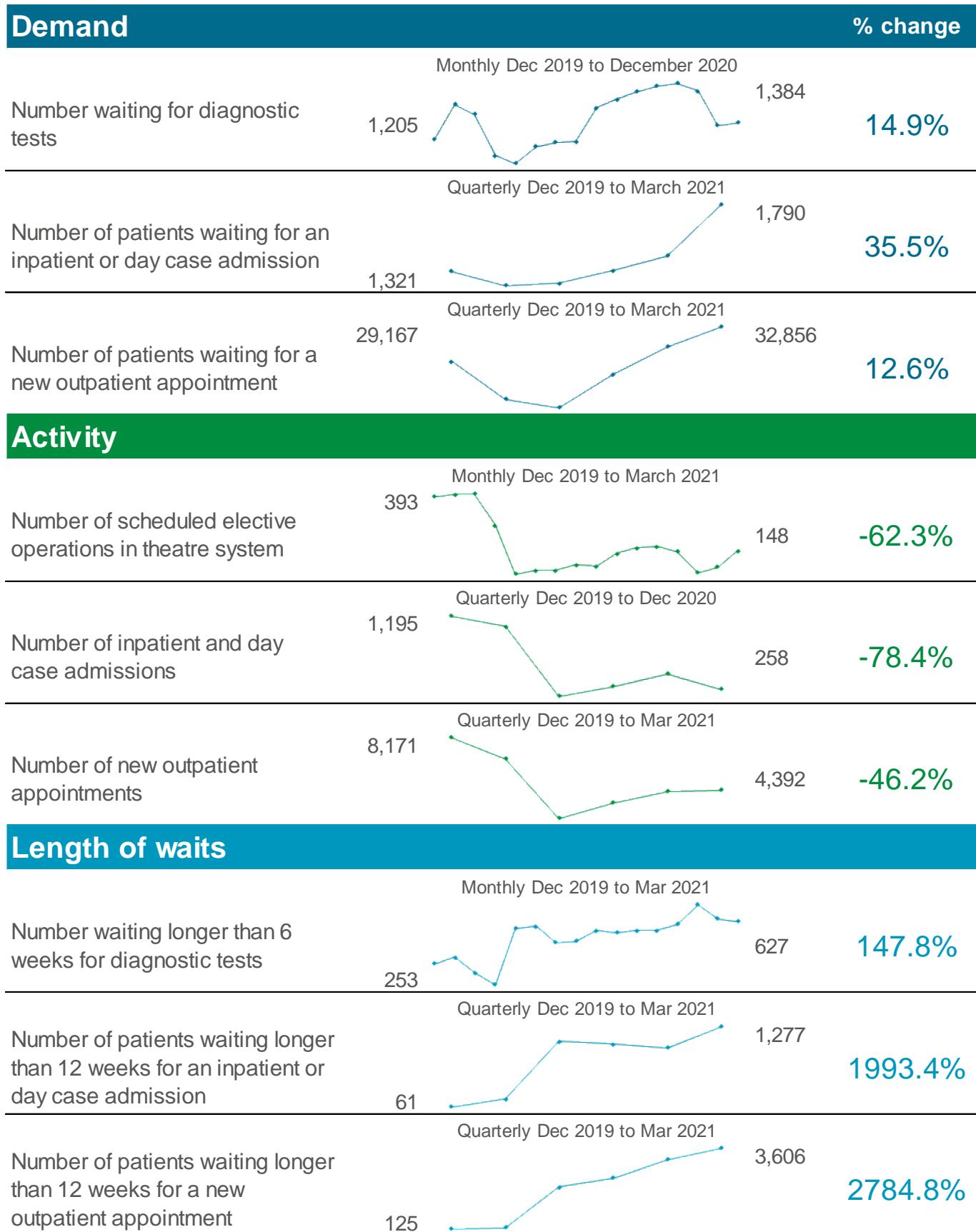
Service performance against national waiting time standards continues to be publicly reported.

78. The 2020/21 annual report and accounts include the position at the end of March 2021 on the board's performance against its national waiting time standards. While these are not currently the board's primary focus for performance monitoring, they provide context for the scale of the impact of the pandemic on the delivery of health services. [Exhibit 7](#) demonstrates how activity and waiting times have been impacted by Covid19 and [Exhibit 8](#) provides a comparison of current waiting times compared to prior years.

79. The largest increases in [Exhibit 7](#) are in relation to waiting times, with the most significant being the number of people waiting more than 12 weeks for a new outpatient appointment which has increased by almost 2,785% from December 2019 to March 2021. The impact of this increase is reflected in Exhibit 7 which shows the number of outpatients waiting longer than 12 weeks has increased from 287 patients in March 2020 to 3,489 patients in March 2021. As highlighted earlier in this report, the board's RMP sets out the areas where the board will focus its collective responses and actions to address backlogs caused by Covid-19. This work primarily relates to acute care and hospital services, more specifically cancer and scheduled care and progressing the regional programme to address the increases in waiting times and demands for services.

Exhibit 7

Trends in demand and activity per acute services



Source: Public Health Scotland

Exhibit 8**Impact of Covid-19 on national waiting time standards (suggest including the eight key waiting times standards)**

Target/standard	Performance at March 2019	Performance at March 2020	Performance at March 2021¹
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	80.8%	95%	95.6%
18 Weeks RTT Proportion of patients that started treatment within 18 weeks of referral	90.8%	90%	74.4%
Patient Treatment Time Guarantee (TTG) Number of inpatients or day case that were seen within 12 weeks	179 patients	62 patients	81 patients
Outpatients waiting more than 12 weeks Number of patients on the waiting list at month end who have been waiting more than 12 weeks since referral at month end	zero	287 patients	3,489 patients
A & E attendees Proportion of A & E attendees who were admitted, transferred or discharged within 4 hours	96.5%	85.5%	87.1%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	100%	100%	97.5%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	93%	93%	100%
CAMHS Waiting Times Proportion of patients seen within 18 weeks of referral	45.8%	84.2%	40%

Note. 1: Figures still to be validated by NHS Information Services Division.
 Source: NHS Borders Annual Report and Accounts

80. We conclude the board has reported variable performance in 2020/21. There will be significant challenge and demands in 2021/22 to cope with the Covid-19 response and progress with remobilisation plans for other acute services.

National performance audit reports

81. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to the board and are highlighted in [Appendix 3](#).

82. The NHS Overview Report on the 2020/21 audits will include a review of the response to the Covid19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2022.

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Internal Controls issues</p> <p>As part of our interim audit work we identified a number of issues with internal financial controls.</p> <p>Risk – Although the weaknesses identified did not represent significant risks due to mitigating controls or limited area of impact, the identified issues should be addressed to avoid possible errors.</p>	<p>We recommend that NHS Borders takes action to address the weaknesses in the system of internal control in 2021/22.</p> <p>Paragraph 40.</p>	<p>Management response: Agreed Financial Operating Procedures will be reviewed and revised as appropriate for areas where weaknesses have been highlighted.</p> <p>Responsible officer: Deputy Director of Finance (Head of Finance)</p> <p>Agreed date: 30 September 2021</p>
<p>2. Financial Planning and savings</p> <p>Additional funding has been provided to the board in order to support the Covid-19 response and a one-year financial plan for 2021/22 was developed. However longer-term financial plans will need to be developed to address the expected funding pressures. The Financial Turnaround programme has been paused since March 2020 and has not yet been restarted.</p> <p>Risk – The board will not return to a balanced financial position if financial planning and efficiencies savings are not prioritised and achieved.</p>	<p>The board should develop longer term financial plans and prioritise re-starting the Financial Turnaround programme if financial balance is to be restored.</p> <p>Paragraph 61.</p>	<p>Management response: Agreed Discussions are ongoing with the SGH&SC Finance Directorate to agree timelines for submission of a 3 year Financial Plan.</p> <p>The Board Executive Team and the Board are currently discussing the planned re-start date for the Financial Sustainability Programme. October is the indicative re-start date at this point.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: Quarter 3 2021/21</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Cyber essentials</p> <p>Cyber resilience continues to be at risk while unsupported systems and aged servers remain in use. The board has not yet achieved the Cyber Essentials accreditation.</p> <p>Risk – the board remains at risk of both cyber-attack and business continuity disruption.</p>	<p>The board should continue to work towards achieving the Cyber Essentials certification in order to reduce the risk from cyber-attacks.</p> <p><u>Paragraph 72.</u></p>	<p>Management response: Agreed The IM&T Portfolio Board and the Borders Capital Investment Group will oversee the profile of work required on unsupported systems and aged servers and will consider the resources available (funding and staffing) to support this work. The Board will be regularly updated on this work.</p> <p>Responsible officer: Director of Planning and Performance</p> <p>Agreed date: December 2021</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Annual report requires management review</p> <p>On receipt of the first draft of the accounts, we noted several amendments were required to the annual report sections to improve readability and consistency with the financial statements.</p>	<p>We recommend a full management review is undertaken for all narrative sections of the annual report and accounts before issuing to audit. Good practice guides should be used to review the required content of the performance report and governance statement to streamline narrative disclosures.</p>	<p>Status: Complete</p>
<p>5. Material valuation uncertainty for land and buildings</p> <p>The board had a material valuation uncertainty clause in their valuation report as a</p>	<p>We recommend management keep the valuation of its land and buildings under review and discuss market conditions with the valuer in 2020/21.</p>	<p>Status: Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>result of Covid-19. This concerns assets valued at £107 million as at 31 March 2020. The report notes less certainty should be attached to the valuations than would normally be the case, due to uncertainty in the market.</p>		
<p>6. Accounting for IJB set aside amounts</p> <p>The arrangements to record the sum set aside for hospital acute services, under the control of the Borders Integration Joint Board (IJB), are not yet operating as required by legislation and statutory guidance. A figure has been agreed in 2019/20 based on the budget agreed at the start of the year between NHS Borders and the IJB, rather than actual expenditure.</p> <p>NHS Borders have applied Scottish Government's transitional arrangements now for four years.</p>	<p>We recommend management should consult on this matter with the Scottish Government and other health boards to develop their accounting practices for the IJB sum set aside in 2020/21.</p>	<p>Status: In progress Revised action: The 2020/21 IJB Annual Accounts includes set aside budgets based on actual expenditure incurred in year. Further work will be taken forward to develop accounting practices for set aside budgets following the appointment of the IJB Chief Finance Officer.</p> <p>Responsible officer: Director of Finance NHS Borders</p> <p>Revised date: March 2022</p>
<p>7. Financial sustainability risk</p> <p>NHS Borders required £8.3 million brokerage funding to achieve financial targets this year. Management report a deficit of £13.1 million carried forward into 2020/21 and therefore additional financial support will again be required. The Financial Turnaround programme has been paused for 6 months.</p>	<p>The board must prioritise re-starting the Financial Turnaround programme and quickly assess the financial impact of Covid-19 if financial balance is to be restored.</p>	<p>Status: In progress See Recommendation 2 above.</p>
<p>8. ICT improvements are required</p> <p>Cyber resilience continues to be at risk while unsupported systems and aged servers</p>	<p>IT upgrades and suitable resourcing in the IM&T department should be progressed to maintain and improve service delivery.</p>	<p>Status: In progress See Recommendation 3 above.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>remain in use. Cyber Essentials accreditation, improvements to IT infrastructure and progressing planned programmes are contingent on resolving IM&T staffing vacancies and skills shortages.</p>	<p>Disaster recovery testing of the new data facility should also be prioritised.</p>	
<p>9. Equality considerations</p> <p>The board has scope to address challenges that it identified in its 2019 mainstreaming report update as follows:</p> <ul style="list-style-type: none"> • Complete, implement and sufficiently resource its review of the corporate governance arrangements for discharging its equality and diversity responsibilities. • Promote awareness and understanding of equality and diversity across all parts of the organisation, including the value of staff disclosing full details of their personal characteristics in confidential staff surveys. • Ensure that equality and diversity issues are addressed in sustained continuing professional development for all staff groups, including the management board. • Evidence equality and diversity aspects of its stakeholder engagement and consultation activity. • Support services to ensure that when feedback and complaints identify the need for improvements, useful changes are implemented. 	<p>We recommend management consider developing its equality considerations in these areas.</p> <p>The Equalities Mainstreaming Report was due to be published in April 2021 but has not yet been published.</p>	<p>Status: In progress Revised action: Progress will be reported in Equalities Mainstreaming Report. Responsible officer: Joint Director of Public Health Agreed date: 31 July 2021</p>

Issue/risk	Recommendation	Agreed management action/timing
	<ul style="list-style-type: none">• Regularly publish, online, updated lists of completed equality impact assessments.	

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the Code of Audit Practice 2016.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls International Standards on Auditing (ISA) 240 require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position disclosed in the financial statements.	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates and accounting policies. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business. 	Results: No significant issues to report in addition to Appendix 1. Conclusion: Satisfactory
2. Risk of material misstatement caused by fraud in income and expenditure recognition NHS Borders receives income from several sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud. Practice Note 10 expands the ISA assumption to advise there is also a risk	<ul style="list-style-type: none"> Analytical procedures on income and expenditure streams. Detailed testing of income and expenditure transactions focusing on the areas of greatest risk. Cut off testing procedures on income and expenditure transactions at year-end. Reviewing counter fraud arrangements. 	Results: No significant issues to report in addition to Appendix 1. Conclusion: Satisfactory

Audit risk	Assurance procedure	Results and conclusions
<p>of fraud over aspects of expenditure for public sector bodies which tend to have an overall net expenditure outturn.</p> <p>3. Risk of material misstatement due to estimation and judgement</p> <p>We have determined there is a significant degree of subjectivity in the measurement and valuation of the account areas: fixed assets, accruals and provisions.</p> <p>In common with many other bodies, NHS Borders' 2019/20 valuer's report contained a 'material valuation uncertainty' clause regarding the impact of Covid-19 on the valuation of land and buildings.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements, particularly due to the continued financial pressures the Board faces.</p>	<ul style="list-style-type: none"> Focused substantive testing of key account areas. Review of accounting policies to ensure these are reasonable. Review of methodology for trade payables and accruals categories. Review the accounting treatment of assets for appropriateness and consistency. Review the revaluation accounting entries of the Board's assets in 2020/21. Review Central Legal Office (CLO) reports covering clinical negligence claims Review of the CLO as a management expert (reliance on central review anticipated). 	<p>Results: No significant issues to report in addition to Appendix 1.</p> <p>Conclusion: Satisfactory</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>4. Performance reporting</p> <p>Covid-19 has had a significant impact on performance measures, particularly for services which have been suspended or are operating at a reduced level. Performance reporting has been significantly reduced at the Board, with most targets not being required to be reported on.</p>	<ul style="list-style-type: none"> Review performance reporting to the Board during the year and at year end. Compare NHS Borders' performance against other boards and average for NHS Scotland and report in our Annual Audit Report. 	<p>Results: Covid-19 has had a significant impact on performance, however the board has continued to monitor and publish performance information.</p> <p>Conclusion: Satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is a risk that a large treatment backlog is building and that once services resume there will be a strain on resource and capacity.</p>		
<p>5. Financial Turnaround programme</p> <p>The Board's priority has been its Covid-19 response which has resulted in the Financial Turnaround programme being paused since March 2020. The programme is being reshaped in response to the pandemic and is not expected to be restarted until June 2021.</p>	<ul style="list-style-type: none"> • Review reported progress on restarting the Financial Turnaround programme and financial plans. • Review Board's Remobilisation Plan and Financial Plan for future years. • Report findings in our Annual Audit Report. 	<p>Results: See appendix 1, recommendation 2. The financial turnaround programme is still suspended and due to restart later in the year.</p> <p>Conclusion: The risk to financial sustainability remains.</p>
<p>6. Integration Joint Board (IJB) arrangements</p> <p>The arrangements to record the sum set aside for hospital acute services, under the control of the IJB, are not yet fully operating as required by legislation and statutory guidance. A figure was agreed in 2019/20 based on the budget agreed at the start of the year between NHS Borders and the IJB, rather than actual expenditure, as allowed under transitional arrangements.</p>	<ul style="list-style-type: none"> • Review the finance team's plans for incorporating the IJB transactions into the annual report and accounts. • Review the latest technical guidance and Scottish Government advice regarding the accounting treatment for IJB set aside amounts. • Perform specific substantive testing of NHS Borders' income and expenditure relating to the IJB. 	<p>Results: See Appendix 1, recommendation 6. Treatment of IJB results was the same for 2020/21.</p> <p>Conclusion: Unsatisfactory. Arrangements require to be revised in 2021/22.</p>
<p>7. ICT risks</p> <p>Cyber resilience continues to be at risk while unsupported systems and aged servers remain in use. Cyber Essentials accreditation, improvements to IT infrastructure and progressing planned programmes are contingent on resolving IM&T staffing vacancies and skills shortages.</p>	<ul style="list-style-type: none"> • We will review the progress of the RTD programme and monitor the Board's continuing IT investment plans. 	<p>Results: See Appendix 1, Recommendation 3. The board is still working to achieve Cyber Essentials accreditation.</p> <p>Conclusion: Unsatisfactory. Cyber security risks remain.</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

NHS Borders

2020/21 Annual Audit Report

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