



The State Hospitals Board for Scotland

2020/21 Annual Audit Report to the Board and the Auditor General for Scotland

September 2021



Table of Contents

Key messages	3
Introduction	7
Financial statements audit	10
Financial sustainability	27
Financial management	31
Governance and transparency	35
Value for money	39
Appendices	45

Key messages



This report concludes our audit of the State Hospitals Board for Scotland for 2020/21.

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

Financial statements audit

<p>Audit opinion</p>	<p>Our independent auditor’s report includes:</p> <ul style="list-style-type: none"> • An unqualified opinion on the financial statements; • An unqualified opinion on regularity; and • An unqualified opinion on other prescribed matters.
<p>Key findings on audit risks and other matters</p>	<p>COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of public sector bodies. In response to the pandemic we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our audit work in those areas produced satisfactory conclusions.</p> <p>The Board had appropriate administrative processes in place to prepare the annual report and accounts and the required supporting working papers.</p>
<p>Audit adjustments</p>	<p>Two audit adjustments were made relating to:</p> <ul style="list-style-type: none"> • the estimated costs and funding implications of personal protective equipment nationally procured through NSS during 2020/21; • treatment of income for patients under exceptional circumstances. <p>All unadjusted differences are collectively and individually immaterial.</p>
<p>Accounting systems and internal controls</p>	<p>We have applied our risk based methodology to the audit. This approach requires us to document, evaluate and assess the Board’s processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report. No material weaknesses or significant deficiencies were noted.</p>

Wider scope audit

 <p>Financial Sustainability</p>	Auditor judgement	
<p>The 2021/22 financial plan is balanced. Delivery of a breakeven position however remains dependent upon additional funding for the pressures of the ongoing pandemic, and realisation of the savings plan. Financial risks remain high around the workforce plan skill mix and staff rostering, with risk also around the level of 2021/22 savings unidentified, which contributes to a high risk of financial shortfall should these not be achieved.</p>		
 <p>Financial Management</p>	Auditor judgement	
<p>The Board has effective arrangements in place for financial management and the use of resources.</p>		
 <p>Governance & Transparency</p>	Auditor judgement	
<p>Governance arrangements at the Board were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic to date.</p>		

Auditor judgement



The Board has appropriate performance management processes in place that support the achievement of value for money.

Performance in 2020/21 was the same or improved in seven of thirteen KPIs compared to the previous year.

Unlike many NHS Boards and healthcare providers, the core clinical function of the State Hospitals Board for Scotland, namely the provision of high secure care and treatment, has remained unchanged throughout the pandemic. The Board continues to focus on learning from the pandemic and managing any ongoing infection risks coupled with recovery and development of the service in line with NHS Scotland priorities. The planning assumption in the Remobilisation Plan is that the Board will continue to be in a position to provide core services throughout the pandemic.



Value for Money

Definition

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



Introduction



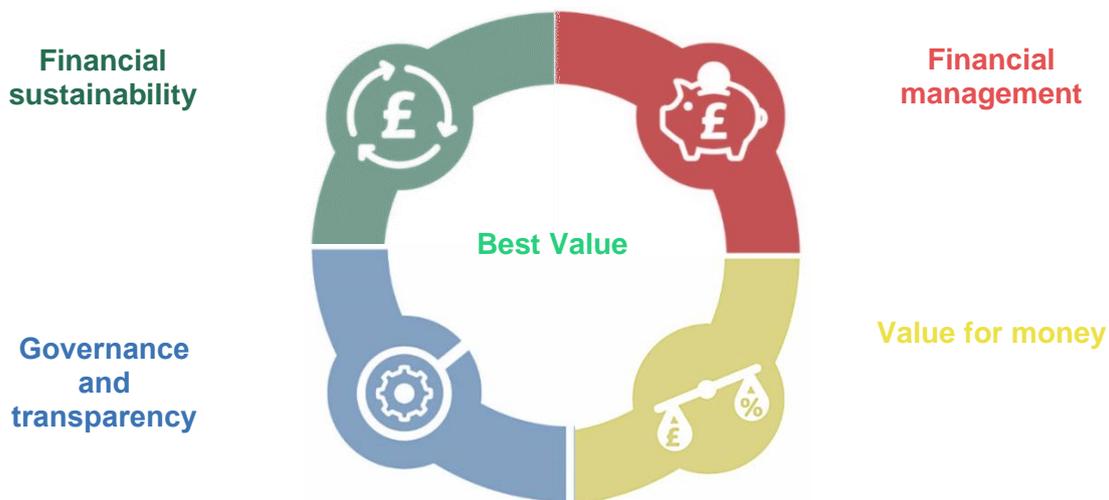
We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence



Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit Committee at the outset of our audit. The core elements of our work include:
 - an audit of the 2020/21 annual report and accounts and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1;
 - monitoring the Board’s participation in the National Fraud Initiative (NFI); and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



Responsibilities

2. The Board is responsible for preparing annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
3. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

Openness and transparency

10. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Adding value through the audit

8. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

Feedback

9. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

Financial statements audit



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

Overall conclusion

11. The annual report and accounts were considered by the Audit Committee and approved by the Board on 22 July 2021. Our independent auditor’s report is unqualified.

Timescales/Administrative processes

12. In Scotland, the administrative deadline for the submission of audited accounts of health boards and agencies is usually 30 June but, as was the position in 2019/20, this has been extended by three months to 30 September. The legislative deadline for laying accounts in the Scottish Parliament remains 31 December.

13. The Board elected to continue with the original timescales (i.e. 30 June), however due to a national accounting issue relating to personal protective equipment (paragraph 21); the approval of the annual report and accounts was postponed by one month, which is still within the deadlines noted above.

14. We worked closely with management throughout the audit to put us in the best position to adhere to this timetable.

15. Our thanks go to staff at the Board for their assistance with our work, particularly given the current environment we are working in.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.</p> <p>Our findings / conclusion to inform our opinion are set out in this section of our annual report.</p>	We have issued unqualified audit opinions.
Going concern basis of accounting	<p>In the public sector when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Board’s functions.</p>	<p>We reviewed the financial forecasts for 2021/22. Our understanding of the legislative framework and activities undertaken provided us with sufficient assurance that the Board will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
	<p>Our wider scope audit work considers the financial sustainability of the Board.</p>	
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • Remuneration and Staff Report • Performance Report • Governance Statement 	<p>We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the audited part of the remuneration and staff report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers. • the information given in the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements. • the information given in the Governance Statement has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions from Scottish Ministers and is consistent with the financial statements.

Opinion	Basis for opinion	Conclusions
Matters reported by exception	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit; or there has been a failure to achieve a prescribed financial objective. 	We have no matters to report.

An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit Committee in March 2021. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
- At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

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

Significant risk areas

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

20. The significant risk areas described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual

report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

Significant risk areas

1. Management override

Significant risk description

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgement

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

Audit procedures

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

Key observations

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

In the prior year we raised a management action point to ensure the Board's procedures on the posting and authorisation of journals are reiterated to all staff and the compliance is closely monitored. Based on audit procedures carried out in the current year; we have

Significant risk areas

concluded that this action point has been completed. In particular we did not find any instances of journals being posted and authorised by the same individual.

2. Revenue recognition

Significant risk description

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

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

Audit procedures

- Evaluate each material revenue stream and review controls over revenue accounting.
- Substantive testing on all material revenue streams.
- Audit testing over the revenue recognition policy to ensure it is appropriate and applied consistently throughout the year.

Key observations

At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for the Board's revenue resource allocation from Scottish Government. This view remained unchanged throughout the audit.

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

We did however identify the following matters during our audit:

Accounting treatment in respect of unspent RRL

In the draft annual report and accounts, the Board reported c. £144,000 deferred income which related to unspent RRL allocation. This should have been presented in the annual accounts as an underspend in the year and approval sought from SGHSCD to carry this forward into 2021/22. This has not been adjusted for in the

Significant risk areas

annual accounts; an unadjusted audit difference has been reported (Appendix 2).

Action Plan Point 1

Patients under exceptional circumstances

There are occasions when the Board continues to care for patients who would be better treated in medium secure hospitals but spaces are not available. In these circumstances, the patients' host boards are liable for the costs and the State Hospital invoices those boards on a quarterly basis. Some of these invoices have not been paid and the Board has engaged with the CLO over the course of the year to recover the income from those host boards.

In the draft annual report and accounts, the Board accounted for 'non-receipt' of this income as deferred income. A subsequent adjustment was made to reflect this as a provision for doubtful debts.

3. Expenditure recognition

Significant risk description

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

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

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

Audit procedures

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

Significant risk areas

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

4. Asset valuations (significant accounting estimate)

Significant risk description	<p>The Board, in accordance with its accounting policies, measures its property assets at fair value through a 5-year programme of professional valuations which are adjusted in intervening years to take account of movements in prices since the last valuation. The valuations are carried out in accordance with the RICS Appraisal and Valuation Manual and the requirements of the Scottish Government. In line with its 5 year programme, a professional valuation was carried out at 31 March 2021.</p>
-------------------------------------	--

The previous year's valuation, as at 31 March 2020, contained a material uncertainty, indicating that lower confidence could be attached to the valuation than otherwise would be the case given the unprecedented impact of COVID-19 on global markets. We included an emphasis of matter paragraph in our independent auditor's report on the 2019/20 financial statements to draw attention to this.

Risk assessment: High

How the scope of our audit responded to the significant risk	<p>Key judgements</p> <p>Boards are required to revalue properties with sufficient regularity to ensure that the carrying amount does not differ materially from the current value at 31 March.</p>
---	--

Audit procedures

- Consider the competence, capability and objectiveness of the external valuer in line with ISA (UK) 500 Audit Evidence.
- Review the valuation report and consider the assumptions used by the external valuer against external sources of evidence.
- Consider the scope of the external valuer's work and the information provided to the external valuer for completeness.

Key observations	We have gained assurance that the carrying value of the Board's estate in the annual accounts is in line with the report received from the external valuers (Valuation Office Agency). In accordance with ISA (UK) 500 "Audit Evidence" we have considered the competence, capability and objectivity of the professional valuer and did not identify any items which gave us cause for concern over the
-------------------------	--

Significant risk areas

suitability of the valuer. We confirmed that the basis of valuation for assets is appropriate based on their usage and reviewed the reasonableness of valuation assumptions applied. Overall, the valuation movements were in line with our expectation.

The Board, in accordance with its accounting policies, measures its property assets at fair value through a 5 year programme of professional valuations which are adjusted in intervening years to take account of movements in prices since the last valuation. In the previous year, the valuation report, which provided indices for both land and buildings to allow the valuations to be updated, recognised a material uncertainty as a result of the impact of the COVID-19 pandemic on market activity.

In the current year, the valuation report provides assurance that, whilst the pandemic continues to affect economies and global markets, property markets have started to function again and, as a result, the valuation as at 31 March 2021 is not subject to a material valuation uncertainty. This is consistent with the latest guidance issued by the Royal Institution of Chartered Surveyors (RICS).

5. CNORIS provision (significant accounting estimate)

Significant risk description

The Board in its financial statements includes provisions for legal obligations in respect of, for example, clinical and medical obligations and participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme).

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

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

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

Audit procedures

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

Significant risk areas

- Consider the competence, capability and objectivity of the management expert in line with ISA (UK) 500 Audit Evidence.

Key observations

We are satisfied that the amount recognised as a provision appropriately reflects the amounts notified by the Central Legal Office (CLO). We have reviewed management's estimations for the provision and related disclosures, and are satisfied that these comply with the requirements of the FReM and NHS Manual for Accounts.

Audit Scotland undertake an annual review of the work carried out by the CLO to establish the extent to which the information they provide as a management expert can be used as audit evidence under ISA (UK) 500 and evaluate the appropriateness of the methodology adopted by Scottish Government to estimate the total national obligation. Audit Scotland has concluded that the CLO is objective, has sufficient expertise and the capability, time and resource to deliver reliable information. Their review did not identify any issues in the methodology used by Scottish Government, however noted that, due to the impact of COVID-19, a simplified methodology had been used which they deemed reasonable in the circumstances.

Other risk factors

Personal protective equipment and testing kits

21. Personal protective equipment (PPE) and testing kits were purchased nationally by NHS National Services Scotland (NSS) during 2020/21 and distributed to NHS Boards as required at nil cost to each board. Each health board is deemed to be acting as principal in its use of PPE and testing kits for its own frontline staff and therefore should recognise the costs and corresponding funding allocations in its financial statements.
22. NSS has provided the Board with estimates of the costs of equipment provided (£356,000). The Scottish Government has provided an amended funding allocation letter to

reflect the cost of equipment funded by the Scottish Government. The cost of equipment supplied by the UK Government has been recognised as a donation. As all of the PPE was fully funded there is no net effect on the Board's resource outturn.

23. There were significant delays in agreeing the accounting treatment with Scottish Government and the provision of relevant cost estimates.
24. Audit Scotland, as the external auditor of NSS, has reviewed the methodology and systems used to arrive at the estimated costs in order to provide assurances to the recipient health boards and their auditors on the accuracy of the estimates. There were no issues identified.

Other impacts of COVID-19 on the annual accounts

25. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. In response to the pandemic we identified potential

areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
<p>Content of the annual report and accounts</p>	<p>In response to the continuing impact of COVID-19; HM Treasury issued an addendum to the Government Financial Reporting Manual 2020-21 which set out the minimum reporting requirements in respect of the performance report and accountability report.</p> <ul style="list-style-type: none"> • The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication. • Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report. 	<p>The Board took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.</p>

Area considered	Description	Conclusion
Access to audit evidence	<p>Our audit this year has, in the main, been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.</p>	<p>We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.</p> <p>We stayed in close contact with Board finance colleagues right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed.</p>
Timescales / administrative processes	<p>In Scotland, the administrative deadline for the submission of audited accounts of health boards and agencies is usually 30 June but this has been extended by three months to 30 September. The legislative deadline for laying accounts in the Scottish Parliament however remains at 31 December.</p>	<p>The Board decided to continue with the original timescales (i.e. 30 June), however due to a national accounting issue (paragraph 23); the approval of the annual report and accounts was postponed by one month which is still within the deadlines as noted above.</p> <p>We worked closely with management throughout the audit to put us in the best position to adhere to this timetable.</p>

Estimates and judgements

26. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
27. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, and accruals. Other than asset

valuations and provisions for legal obligations, we have not determined the accounting estimates to be significant. We revisited our assessment during the fieldwork and completion stages of our audit and concluded that our assessment remained appropriate.

28. Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Asset valuations

Balanced

Asset valuations are carried out by external valuers on an annual basis.

We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.

Provisions

Balanced

Significant estimates were made in relation to the valuation of liabilities related to the Board's membership of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). These estimates were informed by advice from qualified, independent experts.

We evaluated the competence, objectivity and capability of management experts in line with the requirements of ISA (UK) 500 and concluded that use of the experts was appropriate.

Materiality

29. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
30. Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Board and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.
31. Our initial assessment of materiality was £595,000. On receipt of the unaudited annual accounts, we reassessed materiality and revised it as detailed in the table below. We consider that our updated assessment remained appropriate throughout our audit.

Materiality

Overall materiality

£592,000



100%

Accounts materially misstated where total errors exceed this value

Performance materiality

£444,000



75%

Work performed to capture individual errors at this level

Trivial threshold

£29,600



5%

All errors greater than this level are reported

Materiality

Our assessment is made with reference to the Board's Revenue Resource Limit (RRL). Achieving a breakeven position against RRL is a key target for the Board and one of the principal considerations for the users of the financial statements when assessing financial performance.

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

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

Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

Trivial misstatements

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

Audit differences

32. We identified two material adjustments to the unaudited financial statements, as detailed at Appendix 2. The adjustments were in respect of the Personal Protective Equipment and testing kits and the treatment of income for patients under exceptional circumstances.
33. One unadjusted audit difference which is not considered material to the financial statements is also disclosed at Appendix 2. This relates to the treatment of unspent RRL. This has been reported to management and will be included as an appendix to the letter of representation.
34. We also identified some disclosure and presentational adjustments during

our audit, which have been reflected in the annual accounts.

Internal controls

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

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

Service auditor reports

36. The Board utilise a number of shared IT systems, IT applications and processes with other Scottish Health

Boards. Assurance reports are prepared by service auditors in the health sector under ISA (UK) 402 covering the national systems/arrangements.

Shared service

Service assurance

National IT contract

This contract covers the services provided by ATOS Origin Alliance e.g. controls over the server supporting eFinancials.

NHS National Services Scotland (NSS) procure a service auditor report from KPMG. In May 2021 KPMG reported an unqualified audit opinion. We have considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions reached.

National Single Instance (NSI) eFinancials

NHS Ayrshire & Arran host this eFinancials service including the Real Asset Management system on behalf of all Scottish Health Boards.

NHS Ayrshire and Arran procure a service auditor report from BDO. The service auditor highlighted no critical or significant risk findings and reported an unqualified opinion.

Follow up of prior year recommendations

37. We followed up on progress in implementing actions raised in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 4.

39. The accounting policies, which are disclosed in the annual accounts, are in line with the NHS Accounts Manual and are considered appropriate.
40. There are no significant financial statements disclosures that we consider should be brought to your attention other than the material uncertainty disclosure on property valuations noted above. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.

Other communications

Accounting policies, presentation and disclosures

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

41. Overall we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

42. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing
43. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

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

Written representations

45. The Board signed a letter of representation at the same time as approving the financial statements.

Related parties

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

Confirmations from third parties

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

Financial sustainability

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



Auditor judgement



The 2021/22 financial plan is balanced. Delivery of a breakeven position however remains dependent upon additional funding for the pressures of the ongoing pandemic and realisation of the savings plan. Financial risks remain high around the workforce plan skill mix and staff rostering, with risk also around the level of 2021/22 savings unidentified, which contributes to a high risk of financial shortfall should these not be achieved.

Significant audit risk

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

Financial sustainability

A 2020/21 Annual Operational Plan (AOP) and 3-year financial forecast were prepared, agreed by the Board and submitted to the Scottish Government. The Board forecast a breakeven position across each of the three years, dependent on the realisation of a savings plan which the Board recognised would be challenging.

As a result of the COVID-19 pandemic, however, the AOP was replaced by a Board Remobilisation Plan. The current Remobilisation Plan covers the period to the end of March 2021. A one-year Remobilisation Plan for 2021/22 is being prepared. The Plan focuses on staff wellbeing, workforce and finance, continued management of COVID-19, as well as learning from the pandemic.

Additional COVID-19 costs have been reported on a regular basis to the Scottish Government's COVID-19 Health Finance team. The Board continues to assess the potential future financial demands on its staffing resource and the requirements to support a new way of working as a result of the COVID-19 pandemic.

The Board faces challenges in achieving savings targets, including recurring savings, in amongst a challenging performance management landscape and unprecedented challenges of responding to COVID-19. The emerging and uncertain impact on the Board's finances and ability to deliver services in a sustainable manner remains a significant challenge and risk.

Noted in the 2020/21 External Audit Plan

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

Future financial plans

50. Prior to the COVID-19 pandemic, annual operational plans were prepared by the Board. However, due to the impact of the pandemic, the Scottish Government paused the annual operating and financial planning processes.

51. Management has prepared a Remobilisation Plan (RMP) which is

considered to be the Board's Annual Operating Plan for 2021/22.

52. The Board's financial plans for 2021/22 and 2022/23 show a forecast breakeven position:

	2021/22	2022/23
	£'000	£'000
Expenditure	41,872	42,901
Income	(1,225)	(1,260)
Savings	(1,500)	(1,432)
Total net expenditure	39,147	40,209
Core RRL	(36,178)	(37,240)
COVID-19 specific funding	tbc	-
Non-core RRL	(2,969)	(2,969)
Forecast position	-	-

Source: The State Hospital Board for Scotland Remobilisation Plan April 2021 – March 2022

Financial assessment

53. The financial plan for 2021/22 assumes that Covid-related costs will continue through Q1 and Q2 only. Management continue to monitor this position on a month-by-month basis for reporting and forecasting to ensure all relevant costs are included for consideration in the 2021/22 allocations.
54. Delivery of a breakeven position is dependent on additional funding for the financial pressures from the pandemic, and the realisation of the savings plan. Financial risks also remain high around the workforce plan

skill mix and staff rostering and level of savings unidentified, which contributes to a high risk of a funding shortfall should these not be achieved.

Financial pressures

55. Due to the ongoing COVID-19 pandemic, the principal additional costs arising relate to staffing and IT – being increased overtime costs due to higher staff absences and the increased hours of key staff working as part of the COVID-19 team; the costs of “dual-running” critical posts within the hospital arising from the demands on roles for which staff have been redeployed to the COVID-19 support team and related work; and the cost of IT equipment, systems etc. required to enable and develop staff connectivity through the crisis.
56. The following financial pressures / risks are highlighted in the Remobilisation Plan and monitored on a regular basis:
- Workforce Plan Numbers and Skill mix (mainly relating to nursing costs)
 - Pressure from any unfunded element of increased payroll costs
 - Potential increases in rates and utility costs
 - Associated costs of the Hospital estate upkeep; and
 - The requirement for National Boards to provide additional savings on a recurring or non-recurring basis; and
 - Delivery of savings plan (as per below).
57. In addition, in 2021/22 it is anticipated that the Board will resume its planned

update to its Clinical Model. While this has been significantly delayed due to the pandemic, as that impact continues into the coming year so too does the pressure to start introducing where possible transitional elements towards the model's full implementation. While such steps take place, there will therefore be resultant cost pressures arising as the benefits from the new model will not be realisable until it is fully implemented and operationally underway.

Savings plan

58. The delivery of a balanced financial plan is dependent on the realisation of a savings plan.
59. Savings targets have been met in each of the recent years; although a high proportion of these are non-recurring savings. In future years, it is likely that the Board will have increasing challenges generating the same level of cash releasing savings. In order to ensure that service delivery can continue to improve and develop, the Board's focus is on improvements in operational efficiency. This will require new approaches, including the introduction of a new Clinical Model in 2021.
60. The Board has a high proportion of staff costs to total costs (c.85%) thereby significantly reducing the proportion of non-pay costs which can be reviewed for recurring efficiencies.
61. The Board also reports that year on year it gets harder to identify workforce savings without impacting on patient care or security. If plans fall behind, the financial balance could be at risk unless other non-pay savings can be identified.
62. There are continued efficiency and productivity improvements sought which will be identified, managed and implemented in 2021/22. Savings targets for 2021/22 however are particularly challenging as the Board faces the financial pressures noted previously.

Capital Plan

63. The significant capital item for the Board in 2021/22 continues to be the Perimeter Security and Enhanced Internal Security Systems Project which commenced in 2020/21, estimated at £8.4million (excluding VAT).
64. The project continued throughout 2020. The governance for the project is provided by a Project Oversight Board (POB) chaired jointly by the Chief Executive and the Director of Security, Estates and Facilities. The POB meets monthly, with an interim internal meeting taking place between full meetings. The project planned completion date has moved from mid-October 2021 to early December 2021 due to delays in approving design packages and risk and method statements. In December 2020, the project was paused due to national COVID-19 restrictions and re-commenced mid-January 2021 with additional protective measures in place.

Financial management

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



Auditor judgement



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

Financial performance

65. All Boards typically have to work within the resource limits and cash requirements set by the Scottish Government.
66. In 2020/21, however, the Scottish Government paused the annual operating and financial planning process. This was in recognition of the exceptional nature of 2020/21, the associated impact on health boards' delivery of financial plans, and the additional non-repayable funding provided to support in-year financial balance across all boards¹. The State Hospitals Board for Scotland received £1.602million additional non-repayable funding in year which has been reflected in the resource limits and actual performance for the year.

Performance against resource limits

Financial target	Limit £000	Actual £000	Variance £000
Revenue resource limit (RRL)	39,717	39,485	232
Capital resource limit (CRL)	6,931	6,876	55
Cash requirement	42,867	42,867	-

Financial outturn in 2020/21

67. The Board incurred £39.485million in revenue expenditure in 2020/21 and reported a £232,000 under-spend against its revenue resource limit (RRL).
68. At the outset, the Board forecast a breakeven position which was predicated on the achievement of £1.322million efficiency savings. The Board achieved the delivery of those savings in year, the vast majority of which are through vacancy management which is non-recurring in nature. The level of required savings in 2020/21 in comparison to 2019/20 were substantially lower (£2.106million in 2019/20). Additional income was budgeted for in 2020/21 for exceptional circumstance patients.
69. In year reporting noted underspends (largely due to vacancies) but forecast a breakeven position at the year-end. In the draft annual report and accounts presented for audit the reported underspend was £18,000

¹ As a result of this change in process, as auditors we are not required to report on the

Board's compliance with its revenue resource limit in 2020/21.

(representing 0.04% of RRL and therefore in line with the breakeven position forecast). The final outturn position was a result of an audit adjustment in relation to exceptional circumstances patient income (Appendix 2).

70. The Board's financial outturn position has historically been put at risk by significant nursing overtime expenditure. Specific controls were introduced in 2019 with the aim of reducing overtime, including increasing the number of new start staff working on a five over seven day shift pattern and the use of pool staff to cover clinical activity. These controls are monitored by nursing management, with oversight and challenge from the Chief Executive, to maximise their impact and provide meaningful comparisons for the future evaluation of the new clinical model.
71. While the Board continues to experience significant nursing overtime expenditure; the risk did not materialise in 2020/21 and the financial targets were met.

Funding to support COVID-19 related costs

72. Updates on the current financial impact to the Board as a result of COVID-19 are presented to each Board meeting. The Board received £1.6million in 2020/21 to cover COVID-19 related costs.
73. During the year, the Board updated Scottish Government on the outturn position and highlighted that the allocation would not be fully utilised principally due to:

- sickness levels and resultant overtime not reaching the highest potential levels;
- some dual running post costs not materialising in the forecast timeframe;
- perimeter project contingency costs not being at the highest risk levels forecast.

74. The Scottish Government advised that this should be offset against additional costs materialising in late 2020/21 with regard to the £500 staff bonus, and the 1% pay increase announced to apply retrospectively from December 2020.

Systems of internal control

75. We have evaluated the Board's key financial systems and internal financial controls to ensure internal controls are operating effectively to safeguard public assets.
76. We did not identify any significant weaknesses in the Board's accounting and internal control systems during our audit.

Internal audit

77. An effective internal audit service is an important element of a Board's overall governance arrangements. The Board's internal audit service is provided by RSM. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Board's total audit resource.

Prevention and detection of fraud and irregularity

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

Risk of fraud and corruption in procurement functions

80. As part of our audit we reviewed procurement arrangements at the Board, concentrating on the arrangements preventing fraud and corruption in procurement.
81. Overall, we have concluded that the arrangements for preventing and detecting fraud in procurement at the Board are satisfactory.

National fraud initiative

82. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies to identify fraud and error.
83. The most recent NFI exercise commenced in January 2021.
84. Based on our review to date, we have concluded that NFI arrangements are satisfactory, and that the Board has taken a reasonable and proportionate approach to investigating matches.

Governance and transparency

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



Auditor judgement



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

Governance and transparency

New appointments

85. The following changes in governance arrangements have occurred during 2020/21:
- The Chair completed eight years in office at the end of March 2019 but agreed to remain in post until 31 December 2020. David McConnell, Vice Chair, was appointed as Interim Chair from 1 January 2021. Brian Moore was appointed Chair from 1 July 2021.
 - Nicholas Johnston and Bill Brackenridge retired as Non-Executive Directors at the end of December 2020 and January 2021 respectively. Pam Radage and Cathy Fallon were appointed as Non-Executive Directors in January 2021 and Stuart Currie was appointed as a Non-Executive Director in February 2021.
86. We reviewed the induction process and concluded that it provides those charged with governance with the information and platform to do so effectively.

Responding to the COVID-19 pandemic

87. Throughout the pandemic, the Board has been able to continue to follow its existing standing orders, offering a strong governance framework through which its response to the continuing pandemic has been managed.
88. In March 2020, the Board reviewed its corporate governance framework to ensure effective oversight during the pandemic. This review was conducted within the requirement of existing legislation, and in reference to the existing Standing Orders. The aim was also to identify new emerging risks within the corporate governance framework as well as options to mitigate these risks. Following agreement by the Board, the position taken was reported to Scottish Government in April 2020.
89. The Board carried out a review after a six month period. The existing arrangements were agreed to be working effectively to provide a strong governance framework for the conduct of board business. This is kept under review by the Board.
90. The Board and associated committee structure schedule has remained unchanged. Meetings are held virtually, rather than in person, to comply with the need for non-essential travel and physical distancing. Agenda modifications to reflect the COVID-19 updates have been agreed in advance of each meeting with the relevant chair.
91. In response to the pandemic, the Board also stood up a COVID-19 Resilience Committee on 4 March 2020, with the initiation of a formal Incident Command Structure (Gold / Silver / Bronze commanders). A Scientific and Technical Advisory Group (STAG) was also established to provide specialist advice to the Incident Command Structure.
92. The Incident Command structure was in operation from March 2020 to November 2020 at which time there was a planned shift made to an interim

management structure. This reflected an opportunity to take lessons learned from the COVID-19 experience, and to streamline organisational governance to support effective decision-making. The process was completed in December 2020.

93. The Incident Command Structure is reinstated as required and has since been stood up and down again following outbreaks of COVID-19 and the subsequent closure of those outbreaks. The STAG continues to meet following the stand down of Incident Command and provides specialist advice to the Corporate Management Team. A COVID-19 support team continues to provide support for Covid specific practice.
94. The Board reviewed the interim management structure through a board development session in November 2020. It was agreed that this structure would be in place until the end of March 2021, and then be subject to review. This review was in the context of a potentially changing landscape for the Board over the next 18-months as a result of national strategy informed by the report of the Independent Review of Forensic Mental Health.
95. The phased move to a new management structure was completed in April 2021, and the effectiveness of this is to be kept under close review to support further development of the wider leadership structure across the organisation. To date, this has focussed in particular on the Hospital Management Team with structured input from the Organisational Development Lead. Aligned to this, the Board Secretary continues to undertake a review of the whole system with particular focus on how

the system supports effective decision-making and the flow of actions. The Corporate Services team supports the management structure, led through the Board Secretary. In addition, there is dedicated support for the response to COVID-19, from infection control, risk management, operational management and human resources.

Board meetings

96. Board and Committee Meetings have been held virtually rather than in person, to date, to comply the need for non-essential travel and physical distancing, and the preferred mechanism is now through MS Teams, in line with other NHS Boards.
97. Prior to the pandemic, it was an area of active interest for the Board to encourage public interest and attendance at public board meetings, a challenge for a high secure hospital. During the coming year, the Board will focus on digital solutions to enable and support members of the public to attend virtual meetings, and recognises that this may encourage attendance from a wider range of the public nationally.
98. Through our review of the committee papers, we are satisfied that there has been effective scrutiny, challenge and informed decision making through the financial period.

Blueprint for Good Governance

99. The Board continues to engage with the work being taken forward nationally through the Corporate Governance Steering Group, and Corporate Governance Programme Board on the NHS Scotland Blueprint

for Good Governance. Arrangements are in place for the Board Development Team at NHS Education for Scotland to lead a development session based on real time organisational data supporting meaningful learning for assurance information systems. The Board has, in the meantime, restarted work on its Improvement Action Plan with a refreshed approach taking learning from the national “Once for Scotland” approach as well as reflection and learning taken from the COVID-19 experience.

Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the Board's reporting of its performance.



Auditor judgement



The Board has appropriate performance management processes in place that support the achievement of value for money.

Performance in 2020/21 was the same or improved in seven of thirteen KPIs, compared to the previous year.

Unlike many NHS Boards and healthcare providers, the core clinical function of the State Hospitals Board for Scotland, namely the provision of high secure care and treatment, has remained unchanged throughout the pandemic. The Board continues to focus on learning from the pandemic and managing any ongoing infection risks coupled with recovery and development of the service in line with NHS Scotland priorities. The planning assumption in the Remobilisation Plan is that the Board will continue to be in a position to provide core services throughout the pandemic.

Responding to the COVID-19 pandemic

100. Unlike many NHS Boards and healthcare providers, the core clinical function of the State Hospitals Board for Scotland, namely the provision of high secure care and treatment, has remained unchanged throughout the pandemic. Any patient who required admission for high security mental health care and treatment has been accepted and admitted. Referral routes from the judiciary, prisons and other NHS providers have been maintained. Throughout the pandemic, the major change at the Board related to how care and treatment were delivered, supported by a safe clinical environment, where infection prevention and control is central to all decision making.
101. In March 2020 an Interim Clinical Operational Policy (ICOP) was introduced to ensure infection prevention and control measures were prioritised during this period. The ICOP is supported by daily and weekly monitoring of key data to review the impact of the care model on the health and well-being of patients.
102. At the onset of the pandemic, the Board created a six bed General Medical ward equipped with oxygen and supplies. The ward was prepared to accept any patient who required enhanced care for symptoms of COVID-19. Additional and refresher training was provided to staff.
103. COVID-19 Clinical Care Support Documentation was developed to assist in the care of patients who developed COVID-19 within the Board.

The documentation was developed in partnership with NHS Lanarkshire.

104. A contact point with the A&E team in NHS Lanarkshire was established to allow direct access in the event of a deterioration or medical support and transfer.
105. The Board was approached on several occasions to provide aid to other NHS Boards, including the wider forensic mental health and learning disability services which have experienced staffing pressures due to the pandemic. An approach was agreed in partnership with TSH Partnership Forum, a set of principles agreed and mutual aid provided. This has enabled staff to gain experience in other units and develop potential for further collaboration. This model has been tested through NHS Greater Glasgow and Clyde and NHS Grampian being supported through mutual aid focused on nurse staffing.
106. Video-visiting was introduced in April 2020. This enabled patients and their families and carers to connect virtually against a backdrop of travel and visitor restrictions associated with lockdown.
107. The Board and associated Governance Committees met regularly, as planned throughout the pandemic. Meetings were held virtually with migration from teleconferencing to MS teams.
108. The majority of Board activity has now restarted with virtual meetings becoming normal practice.

Remobilisation Plan 2021/22

109. The Board's Remobilisation Plan sets out the priorities for the coming year in

the context of the current environment and are aligned to, and reflect, the key principles outlined in The Framework for NHS Scotland: 'Re-mobilise, Recover, Redesign'.

- Address physical health care needs of patients
- Promote and support staff wellbeing
- Develop a culture of continuous quality improvement
- Implement changes to the clinical model
- Work with key partners to support the implementation of recommendations from the Forensic Mental Health Review.

110. In response to national initiatives, the Board will engage in the following activity in 2021/22:

- The Independent Review of Forensic Mental Health Services. This work was paused from March until August 2020. The Board are working with the review team and Scottish Government to respond to the recommendations. The outcome of this review may significantly change the delivery and alignment of Forensic Mental Health across NHS Scotland.
- The Scottish Mental Health Law Review published interim reports in May and December 2020. The Board continue to engage and participate accordingly with the various phases of the review, with the final report expected in 2022.
- Scotland's Mental Health Transition and Recovery Plan, published in October 2020 outlines the Scottish Government's

response to the mental health effects of the pandemic. The plan is comprehensive and contains over 100 actions. It commits to a renewed focus on delivery of effective and safe treatment and care within the forensic mental health system.

- The Board will participate in a pilot exercise with the Scottish Prison Service in relation to a small cohort of highly complex prisoners. A pilot site is being explored with some tentative exploration underway with HMP Perth.
- Participation in court processes utilising digital technology on site at the Board to ease access to judiciary services.
- The Forensic Mental Health Network (hosted by the Board) assess transfer issues from prison in the forensic estates. The Board continues to work alongside the Network to ensure there are no excessive waits for prison transfer.
- Female pathways for Forensic Mental Services in Scotland will be reviewed based on the recommendations made in an Independent Review.
- National Secure Adolescent inpatient pathway – The Board is engaged in ongoing stakeholder meetings to develop the business case, contingency plans and governance processes.

Learning from the pandemic

111. An exercise to engage staff, patients and carers took place in summer 2020 to learn from the pandemic. Over 250 staff members engaged in responding

to questionnaire, teleconference calls, MS team meetings, 1:1 discussions and group response activities. From these, six priority areas emerged with associated actions:

- 1) Digital Transformation
- 2) Staff Health and Wellbeing
- 3) Increase in Patient Activity and Improve Physical Health of Patients
- 4) Building a Personalised Approach to Care
- 5) Organisational and Clinical Effectiveness
- 6) Organisational Leadership and Culture.

112. The emergent themes were matched against the main themes of the Sturrock Review as well as areas of relevant learning for the Board from the Strang Report into Mental Health Services in NHS Tayside.

113. In summary there were 142 activities identified. As noted in the Remobilisation Plan, 67 of these have been completed, 70 are in progress, three are no longer relevant, with only two not started due to the continued pause on activity to progress the new clinical model.

Clinical Care Model

114. In 2019, the Board endorsed its preferred option for a new Clinical Care Model. The model outlines a 10 ward model with eight major mental illness wards and two intellectual disability wards. The intention was to transition to the new Clinical Model between April and June 2020.

115. In March 2020, however, it was agreed by members of the Clinical Model Oversight Board to suspend activity on this area of work due to COVID-19. All members, external stakeholders and the Board agreed this was the most appropriate course of action. This position continues to be monitored.

Staff wellbeing

116. The Minister for Mental Health wrote to all NHS Scotland employers in March 2020 stressing the need to ensure that local arrangements are in place for the provision of mental health and wellbeing support for staff during the pandemic. NHS Boards were asked to identify a local champion for staff wellbeing and further guidance, outlining essential support arrangements required within each NHS Board, was issued by the Scottish Government in April 2020.

117. All NHS Boards have been urged to take a proactive approach and to work in partnership with staff side colleagues, health and safety leads, public health, occupational health, and other relevant services to support employee health and wellbeing throughout the pandemic.

118. Within the Board, the Professional Nurse Advisor is the nominated Wellbeing Champion and is co-ordinating the local response. A Workforce Wellbeing Group has been established to assist in identifying and addressing local needs and includes representation from clinical and support services, staff-side, psychological services, organisational development and human resources. Input from the occupational health service and other relevant services is being sought as and when required.

119. A tiered support model has been adopted locally. The model includes initiatives and interventions designed to raise staff awareness and facilitate access to self-help resources, psychoeducation and peer support. Signposting and assistance to access psychological support and counselling services is also being provided when required.
120. A review of local arrangements for staff wellbeing and support was undertaken in April 2020 to assess compliance with the Scottish Government guidance. A wide range of interventions are in place.

Performance management arrangements

121. The Board has developed a performance management framework which comprises quarterly updates on key performance indicators (KPIs), an annual overview of performance and year-on-year comparison each June. The national standards directly relevant to the Board are: Psychological Therapies Waiting Times and Sickness Absence. Additional local KPIs have also been developed.
122. The Board identified 13 local key performance indicators (KPIs) in 2020/21. Progress against these KPIs was reported in the Annual Report and Accounts for the year ended 31 March 2021.
123. Performance in 2020/21 was the same or improved in seven KPIs, compared to the previous year. In five KPIs performance was below 2019/20. For one indicator it was 'paused' due to the lockdown restrictions (Patients engaged in off-hub activity centres).

124. Notwithstanding the improved performance, for six of the KPIs the target performance level was not achieved. These were:
- Patients have their care and treatment plans reviewed at 6 monthly intervals: 94.40% (target 100%)
 - Patients will undertake 90 minutes of exercise each week: 75% (target 80%)
 - Patients offered an annual physical health review: 56.67% (target 90%)
 - Sickness absence: 5.23% (target: 5%)
 - Patients commence psychological therapies < 18 weeks from referral date: 97.66% (target 100%)
 - Patients have their clinical risk assessment reviewed annually: 95.35% (target 100%).

125. The performance reports presented to the Board provide explanations on performance to date and highlight any areas for improvement where the KPIs have missed their targets. A traffic light system has been adopted to readily identify those KPIs which fall short of the target performance level.

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

Sickness absence

127. Addressing sickness absence is a key priority for the Board. The Board, Staff Governance Committee and Audit Committee all receive regular reports on sickness absence. The sickness

absence rate for 2020/21 was 5.23%; which represents a significant reduction from 6.25% in 2019/20 and the lowest level reported by the Board since 2014/15.

128. COVID-19 related absences are excluded from this % and are measured and reported separately. During 2020/21, the % hours lost have been between 1.06%-8.5%.

Future developments – performance reporting

129. The Board is developing a Tableau Business Intelligence system. Dashboards now in the final stages of testing and deployment are the Incidents dashboard for Risk and the HR Dashboard. These will provide the capability to deep dive into data and provide in depth reports to support local decision making.
130. The Board will continue to roll out dashboards across the hospital once user testing has been completed.

Appendices

Appendix 1: Respective responsibilities of the Board and the Auditor	46
Appendix 2: Adjusted and unadjusted errors identified during the audit	50
Appendix 3: Action plan	51
Appendix 4: Follow up of prior year recommendations	54

Appendix 1: Respective responsibilities of the Board and the Auditor

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

Board responsibilities

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

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

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

Auditor responsibilities

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

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

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Independence

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

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

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

Audit and non-audit services

The total fees charged to the Board for the provision of services in 2020/21 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of the State Hospitals Board for Scotland (Auditor remuneration)	41,930	40,710
Total audit	41,930	40,710
Non-audit services	-	-
Total fees	41,930	40,710

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

Audit quality

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

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

The most recent audit quality report which covers our work at the Board since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Adjusted and unadjusted errors identified during the audit

Corrected misstatements

No	Detail	Assets	Liabilities	Reserves	SoCNE
		Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
		£	£	£	£
1.	Recognition of personal protective equipment and testing kits			(230,000)	230,000
2.	Adjustment over treatment of income for patients under exceptional circumstances		214,000		(214,000)
Net impact on (income) / expenditure per audited accounts					16,000

Uncorrected misstatements

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

Detail	Assets	Liabilities	Reserves	SoCNE
	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)	Dr / (Cr)
	£	£	£	£
Recognition of unspent RRL in year		144,000		(144,000)
Net impact on (income) / expenditure per audited accounts				(144,000)

Appendix 3: Action plan

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

The recommendations are categorised into three risk ratings:

Key:

1. Significant deficiency

2. Other deficiency

3. Other observation

1. Treatment of unspent RRL		Other deficiency
Observation	In the draft annual report and accounts, the Board reported c. £144,000 deferred income which related to unspent RRL allocation. This should have been presented in the annual accounts as an underspend in the year and approval sought from SGHSCD to carry this forward into 2021/22.	
Implication	Non-compliance with accounting standards and inaccurate reporting of financial performance.	
Recommendation	The Board should review its accounting treatment in respect of unspent RRL.	
Management response	<p>Agreed</p> <p>Responsible officer: Director of Finance and eHealth</p> <p>Implementation date: December 2021</p>	

2. Property, plant and equipment

Other deficiency

Observation	<p>During our audit we noted the following areas where there is scope for improvement as they relate to the Board's arrangements for maintaining its asset portfolio:</p> <ul style="list-style-type: none"> • Development of procedures on recording assets under construction on the fixed asset register once they become available for use • Development of procedures to review assets under construction for impairment as the project progresses • Development of procedures for updating assets lives in the year the full asset valuation is carried out • Development of procedures over internal asset verification exercises during the year
Implication	There is a risk that if such procedures are not developed and followed that the fixed asset portfolio is materially misstated in the financial statements.
Recommendation	Procedures should be developed covering the areas above.
Management response	<p>Agreed</p> <p>Responsible officer: Director of Finance and eHealth</p> <p>Implementation date: December 2021</p>

3. Employee contracts

Other deficiency

Observation	From our sample testing performed we noted that not all employee contracts are signed. Continued employment is taken as implied acceptance of the terms of the contract.
Implication	Without a signed employee contract in place, the Board increases the risk of uncertainty surrounding the terms of the agreement which could result in a legal dispute.
Recommendation	All employee contracts should be signed prior to employment commencing.
Management response	<p>Agreed</p> <p>Responsible officer: HR Director</p> <p>Implementation date: December 2021</p>

4. Service Level Agreements

Other deficiency

Observation	<p>We noted the following in respect of Service Level Agreements:</p> <ul style="list-style-type: none"> • One instance where no signed SLA was in place • One where the incorrect end date has been recorded on the SLA schedule
Implication	<p>By engaging a service provider without a signed SLA in place, the Board increases the risk of uncertainty surrounding the terms of the agreement which could result in a legal dispute.</p> <p>If the SLA schedule is not kept up to date, payment could be made/received after expiry of the signed agreement.</p>
Recommendation	<p>Signed SLAs should be obtained and kept for all service providers.</p> <p>The SLA schedule should be reviewed and updated on a regular basis.</p>
Management response	<p>Agreed</p> <p>Responsible officer: Director of Finance and eHealth</p> <p>Implementation date: December 2021</p>

Appendix 4: Follow up of prior year recommendations

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

Journal authorisation			
Recommendation	Management should ensure appropriate controls are in place to prevent or detect where a journal has been posted and authorised by the same individual, and reinforce Board procedures to all relevant staff.		
Rating	Other deficiency	Implementation date	Immediate.
Closed	We have confirmed that journal authorisation functions have been updated. Our journal testing confirmed that journals were appropriately authorised and appropriate segregation of duties was in place.		
Source of estimation uncertainty – sensitivity analysis			
Recommendation	In future years, we would encourage the Board to carry out a sensitivity analysis to help users of the financial statements understand the judgements management have made about the any sources of estimation uncertainty		
Rating	Other deficiency	Implementation date	31 March 2021
Closed	The recommendation was raised in the context of the ‘material uncertainty’ disclosure on asset valuations in 2019/20. No such disclosure was made in 2020/21. Action has been concluded as complete but is applicable for consideration each year.		

Sickness absence

Recommendation On review of the attendance management action plan (as presented to the Board in February 2019) we noted a number of observations where there was scope for improvement:

- The action plan should articulate the desired impact or outcome the actions will have on achieving a reduction in sickness absence.
- The action plan should stipulate how the actions will be monitored on an ongoing basis to ensure they are being sustained.
- Consideration should be given to developing additional actions which will contribute to the reduction of sickness absence levels but may take a longer period of time to implement.
- Consideration should be given to reporting lines and the purpose of information being presented. The Board, Staff Governance Committee and Audit Committee all receive information on sickness absence levels.

Rating	Other observation	Implementation date	Ongoing
Closed	<p>As reported previously, the sickness absence rate has seen a significant reduction since 2018/19 and the lowest level reported by the Board since 2014/15.</p> <p>However, this rate is set against the backdrop of the COVID pandemic during 2020/21 which saw unprecedented pressures on the service</p> <p>That being said, work continues in partnership and there remains a focus on the management and monitoring of absence across the Service. A HR & Wellbeing Group has been established which has worked successfully, discussing ideas and suggestions of health and wellbeing initiatives for the Board. There is also to be the development of a Wellbeing Strategy and Action Plan to support staff throughout the Board.</p> <p>A Staff Wellbeing Centre has also been established and this offers staff a place to take time out and relax and find supportive material / guidance to help with issues they may have. Funding has also been sourced and the recruitment has taken place of 2-part time Wellbeing Champions who will continue the good work started already. This will include ongoing Staff engagement which featured highly during the year. Two State Hospital staff surveys were undertaken.</p>		

Sickness absence

Feedback to staff was through the Covid-19 bulletin and teleconference discussions led by the Chief Executive involving multiple teams and individuals from across the organisation. Staff involved in these sessions received direct feedback in relation to the session they participated in. This twin approach (staff survey and teleconference discussions) enabled two-way dialogue and meaningful feedback from a third of the entire workforce. All feedback was used to develop actions and work-streams to guide the recovery process. This clear vision of the way forward was shared with staff to avoid causing undue anxiety.

Work continues on the updating the training and development of staff on the Once for new Once for Scotland Attendance Management Policy which went live on 1 March 2020. The HR Team are looking to updating the toolkit / developing any additional guidance required, taking on board any issues which have come up throughout the year.

Briefing sessions which were previously delivered for supervisors and line managers to support introduction of policy changes and the new Once for Scotland policy will be undertaken again to ensure they feel fully supported through this process.

There is a review of our Occupational Health Services which will mean undertaking a tender process for the new service from April 2022. As part of this, analysis of the surveys and staff engagement will be undertaken to ensure that we have the services in place that staff actually benefit from.

Nursing overtime costs

Recommendation The Board identified this as a key priority in 2018/19 and immediate action was required to address overtime costs in both the short and long term.

An action plan should be developed and supported by clear performance measures to assess the impact of the actions. The action plan and supporting measures should be subject to regular review by the Board.

Rating	Other observation	Implementation date	Ongoing
Closed	<p>The increase in registered nurse vacancies has had an impact on overtime spend but we are still reporting an underspend.</p> <p>Significant challenges were experienced as a result of COVID 19 and this saw a significant spike in overtime; this has been recharged to COVID specific monies.</p> <p>Overtime continues to be managed with robust measures in place to ensure spend is managed effectively.</p> <p>There has been an adjustment in the Nurse Pool due to reallocation of funding so posts now sit within the funded establishment. However, the management of Nurse Pool rostering continues to support flexibility to manage short notice deficits to avoid overtime costs where possible. It should be noted that there is insufficient capacity in supplementary staffing to meet the demand. Further work is required to increase this capacity.</p> <p>We continue to monitor annual leave allocation and are within the Predicted Absence Allowance month on month. Amendments have been made to the Annual Leave Protocol to improve the management of annual leave to allow greater controls to be in place to manage unallocated leave.</p>		



© Azets 2021. All rights reserved. Azets refers to Azets Audit Services Limited. Registered in England & Wales Registered No. 09652677. VAT Registration No. 219 0608 22. Registered to carry on audit work in the UK and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.

We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.
Accounting | Tax | Audit | Advisory | Technology
