

Bundle of documents for Oral hearings commencing from 13 May 2025 in relation to the Queen Elizabeth University Hospital and the Royal Hospital for Children, Glasgow

Bundle 29

NHS Greater Glasgow and Clyde Audit Reports

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July 2005

NHS Greater Glasgow

Annual Report to Board Members

2004/05 Audit



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The Members of the Board Greater Glasgow NHS Board 350 St Vincent Street GLASGOW G3 8YT The Auditor General for Scotland Audit Scotland 110 George Street EDINBURGH EH2 4LH

26 July 2005

Our ref: CDR/MW/LM

Ladies and Gentlemen

Annual Report to Board Members 2004/05

We have completed our audit of Greater Glasgow NHS Board (the "Board") and its financial statements for the year ended 31 March 2005.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2004/05 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

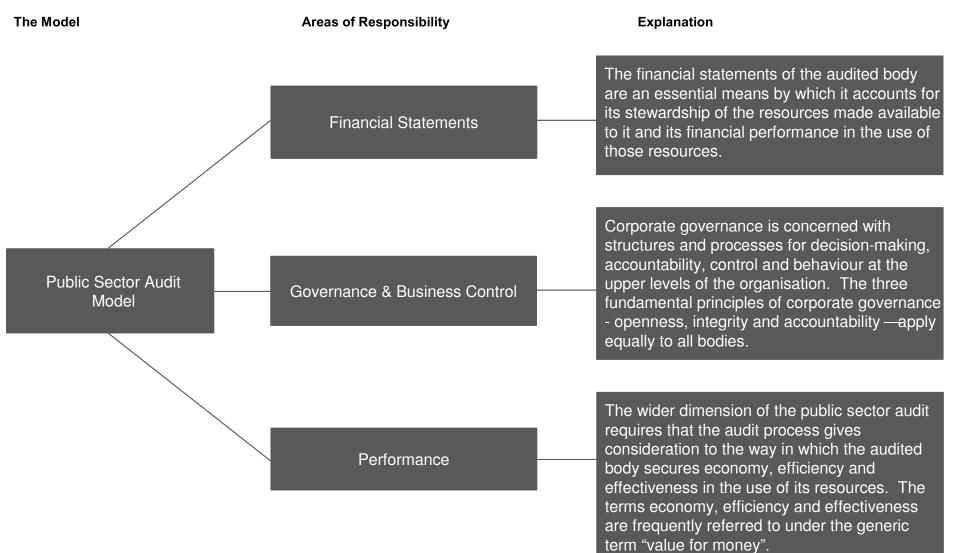
Yours faithfully

PricewaterhouseCoopers LLP

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Our Report Structure

Our report structure reflects our wider public sector audit responsibilities as set out in Audit Scotland's Code of Audit Practice.



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1. Audit Opinions and Financial Targets

Our Audit Opinion

- 1.1 Our audit opinion concerns both the true and fair statement of NHSGG's financial results for the year ended 31 March 2005 (2004/05) and the regularity of its income and expenditure in the year.
- 1.2. Our true and fair opinion on the financial statements is unqualified.
- 1.3. Our regularity opinion on income and expenditure draws attention to patient exemptions with regard to pharmacy, dental and ophthalmic charges.
- 1.4. The Counter Fraud Services (CFS) of the National Support Services (NSS) performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for NHS Greater Glasgow for 2004/05 suggests that exemptions amounting to £6.1 million may have been given that were not eligible. As a result of the work by the CFS and the potential control deficiencies which may exist, the Board has outlined this matter concerning patient exemptions in its Statement of Internal Control and Directors Report. We also draw attention to this matter in our audit opinion.
- 1.5 Our opinion is set out in full in **Appendix 3**.

Financial Targets

- 1.6 The Board achieved its three financial targets of:
 - The net resource outturn did not exceed the Revenue Resource Limit (RRL) the Board spent £1,268 million against its RRL of £1,280 million, resulting in a surplus of £12.1 million.
 - Staying within its Capital Resource Limit (CRL) —the Board spent £66.154 million against its CRL of £66.213 million.
 - The Board did not exceed its Cash Requirement Target the Board spent £1,218 million against a limit of £1,219 million.

2. Financial Performance and Position

2.1 It is emphasised that we do not express a specific audit opinion on the figures which follow on pages 7 and 8 — these have been extracted in agreement with management from various reports, supporting papers and other available documentation.

NHSGG's Overall Financial Out-turn Reported for 2004/05	£'000
Hospital, Community and Family Health Costs	(1,655,904)
Hospital, Community and Family Health Income	337,386
Total Clinical Services Cost (net spend)	(1,318,518)
Net Administration and Non-Clinical Spend (net spend)	(15,057)
Net Operating Cost	(1,333,575)
Family Health Services Non Discretionary Allocation	64,592
Capital Grants and Other Allocations	926
Net Resource Outturn	(1,268,057)
Notional Revenue Resource Limit	1,280,160
Surplus for year	12,103

<u>Proje</u>	ected and Actual Financial Position 2004/05	£'m	£'m
Projec	ted gross funding deficit reported at June 2004		(58.8)
1.	Additional Projected Income:		
	i West of Scotland Health Board Income		10.0
	ii SEHD Funding (non recurring)		12.2
2.	Projected savings:		
	i Recovery plan —savings (recurring and non recurring)		22.0
	ii Slippage in ring fenced income (utilised for 2004/05 recurring spend)		10.0
Projec	cted financial position for 2004/05 (at June 2004) - Deficit		(4.6)
3.	Additional ring fenced income not spent in 2004/05		7.9
4.	Results of further cost containment measures:		
	i Funding allocations for service developments, not fully committed/utilised in 2004/05	11.5	
	ii Divisional surpluses (mainly Primary Care Division surplus of £4.524 million)	5.0	16.5
5.	Land Sales		1.3
6.	Reduced level of income from other West of Scotland Health Boards		(7.8)
7.	Release of provisions not required (principally relating to Agenda for Change)		2.5
8.	Final consolidation accounting adjustments:		
	i Impairment of fixed assets	(2.1)	
	ii Provision for restructuring costs	(1.8)	
	iii Other	0.2	(3.7)
Actua	l financial position for 2004/05 - surplus		12.1

<u>Proj</u> e	ected	Financial Position 2005/06	£'m	£'m
Actua	l Repo	rted Surplus – 2004/05		12.1
1.	Less	Non Recurring Income in 2004/05		
	i	SEHD Funding	(12.6)	
	ii	Land Sales	(1.3)	
	iii	Ring-fenced Funding (funding for specific purposes)	(8.0)	(21.9)
Open	ing Un	derlying Deficit 2005/06		(9.8)
2.	<u>Addit</u>	ional Funding -2005/06		
	i	SEHD Uplift 2005/06	74.0	
	ii	Other West of Scotland Health Board income	6.0	
	iii	Asylum Seekers Services	1.5	81.5
3.	<u>Addit</u>	ional Expenditure		
	i	Prior year recurring expenditure commitments brought forward	(16.4)	
	ii	Prior year non recurring expenditure commitments brought forward	(5.4)	
	iii	Inflation and other pressures —2005/06	(60.1)	
	iv	Local Health Plan commitments —2005/06	(26.7)	
	v	Less: Forecast of deferred expenditure carried forward to 2006/07	9.0	(99.6)
4.	<u>Savir</u>	ngs Plans/Additional Income - 2005/06		
	i	Cost Savings Plans (recurring)	10.0	
	ii	Land Sales (non-recurring)	7.5	17.5
Forec	ast De	ficit – 2005/06		(10.4)

High Level Commentary

- 2.2 The projected deficit of £4.6 million continued to be reported to the Board and PRG throughout the year. The improved position resulting in a £12.1 million surplus was first reported to the Board and PRG in May 2005.
- 2.3 The principal factors which moved the projected £4.6 million deficit to a £12.1 million surplus were funding allocations for service developments, not fully committed/utilised in 2004/05 (£11.5 million) and Divisional level surpluses of (£5.0 million total, principally as a result of a slowing in the rate of growth of prescribing at the Primary Care Division).
- 2.4 Management has and is actively improving the way in which NHSGG's finances are reported to the Board and PRG. (refer to Section 12), ACTION POINT 1
- 2.5 Savings achieved were both recurring and non-recurring. Management forecast that certain elements of those categorised as non-recurring can be reasonably expected to recur in future years.
- 2.6 NHS Greater Glasgow put in place a range of cost containment measures (in addition to its planned recovery plan) that resulted in a sizable additional saving in 2004/05 than initially projected.
- 2.7 We understand that NHSGG is actively considering further measures to address the 2005/06 forecast deficit of £10.4 million.
- 2.8 All of the above comments and level of figures (£<u>millions</u>) quoted should be read in the context of an organisation that spends (in gross terms) around £1.655 <u>billion</u> per year.

Continued Cost Pressures

Pension Rates

2.9 The impact of increased employer pension rates from 5.5% to 14% in 2004/05 was not a contributory factor to the movement in outturn as the additional costs of £46.8 million were matched with additional funding provided by SEHD.

Agenda for Change

- 2.10 Agenda for Change is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, aid recruitment and retention and allow for the personal development of staff. The new pay structure will consist of nine pay bands and several pay points within each pay band. Individual posts will be placed in the correct pay band by either matching the job to the national profile or a local job evaluation.
- 2.11 A pan Glasgow project steering group was established in 2003/04 by the Board which is co-chaired in partnership by the Chief Executive of Yorkhill Division and a full-time Union representative, with regular input from the Board Director of Human Resources, and has met every six weeks.
- 2.12 NHSGG is currently working towards full implementation of the Agenda for Change requirements. The initiative is being rolled out on a pan Glasgow basis. This has been facilitated by the use of Glasgow wide focus groups such as the Agenda for Change Steering Group and the Financial Issues Group which focus on the financial impact of pay modernisation.

- 2.13 NHSGG began the job matching process in January 2005. Glasgow wide, approximately 30,000 jobs of which between 3,000 and 4,000 posts need to be matched to the Agenda for Change framework. Job matching was originally scheduled to be finished in April/May 2005 with assimilation (matching the job descriptions to the National Priorities and onto the pay-bands) due to complete in early 2006. The matching process has now been re-scheduled for September 2005.
- 2.14 Progress at the beginning of July 2005 can be summarised as follows:
 - 987 posts have been matched, covering 4,850 employees.

ACTION POINT 3

This is behind schedule, but we understand that additional resources have been allocated to support those involved with job matching to ensure improved progress.

- 2.15 In 2004/05, it is estimated that the cost of implementing Agenda for Change was £7.32 million (accrued in the 2004/05 Final Accounts).
- 2.16 The cost of implementing Agenda for Change has been identified as a major cost pressure in the 2005/06 budget. It accounts for a significant proportion of an overall provision for pay inflation of £39 million in 2005/06. This projection includes an amount to cover the potential cost of backfilling additional holiday entitlement.

General Medical Services Contracts

- 2.17 The General Medical Services (GMS) contract came into effect from 1 April 2004 and represents a fundamental change in the way that General Practitioners are contracted with the NHS.
- 2.18 In 2004/05, the Scottish Executive Health Department funded Health Boards at £75 per point on an average Quality Outcome Framework (QOF) points score of 672 (revised down from an initial funding assessment of 850 points). However, GP practices in NHS Greater Glasgow achieved approximately 1000 points on average, creating a £4.5 million funding shortfall (total expenditure of £13.9 million compared to funding of £9.4million), which NHSGG funded through other efficiencies and savings.
- 2.19 A summary of the overall increased funding provision for primary medical services in 2005/06 which relate to the GMS contract is provided below:

Element of GMS Contract	Increase of Funds £'Million	Purpose of Funding
Quality Outcome Framework (QOF)	8.85	This increase brings the funding for QOF to a level that would cover an achievement of an average of circa 1,000 points at £120 per point in 2005/06 (2004/05 £75 per point)
Other Board Funds	2.15	This will cover committed premises expenditure and increased costs of out-of-hours services. SEHD has made no additional funding available for enhanced services provision by GP practices in 2005/06.
TOTAL INCREASE	11.00	

- 2.20 SEHD has provided funding for the implementation of the new QOF on the basis of an average achievement by all GP practices in Scotland of 79.5% of the maximum points attached to the quality indicators which are contained within the QOF. NHSGG has added £4.5 million funding from internal resources to top this up and allow for an achievement of circa 1,000 points for Glasgow practices to be funded in 2005/06.
- 2.21 For 2005/06 it is estimated that a potential funding shortfall of £1.6 million could arise, principally in relation to enhanced services.
- 2.22 NHSGG will require to cover the funding shortfall outlined above from other funding sources.
- 2.23 In summary, implementation of the new GMS contract arrangements has brought with it a number of areas of real cost pressure. NHSGG's strategy for managing these risks is to take whatever steps are necessary and appropriate to contain any expenditure pressures which arise within the overall envelope of funds made available for implementation of the GMS contract, using cost savings achieved on other areas to bridge any residual funding gap.

Consultant Contracts

- 2.24 The implementation and effective delivery of the requirements of the Consultant Contract Framework is a critical element of the Scottish Executive Health Department improvement programme. The new contract provides increased levels of remuneration relating to time based contracts and agreed job plans. The job planning process is based around service needs and priorities; this involves agreement on hours worked linked to service and workforce planning.
- 2.25 The majority of consultants employed by the NHSGG Board have now transferred to the new contract.
- 2.26 The costs of implementing the Consultant Contract, reflected in the 2004/05 accounts, amounted to £20.3 million (including routine pay inflation), against an initial projected cost of £17.2 million.

Waiting Times

- 2.27 NHS Greater Glasgow has identified national waiting times targets as one of its key performance indicators. There are well developed waiting times monitoring systems in place with regular and detailed performance information being submitted from the Divisions to the Board on a regular basis.
- 2.28 The Board had agreed to two main waiting time targets. One relating to outpatients; the other to inpatients/day cases. For both areas the target related to patients waiting beyond 26 weeks. For 2004/05 no more than 12,000 outpatients and 700 inpatients/day cases were to wait longer than 26 weeks.
- 2.29 The outpatient performance target was achieved by the end of March 2005, with 9,029 patients waiting more than 26 weeks.
- 2.30 In terms of the inpatient/day case performance, it was always considered by management that this would be a more difficult target to achieve. However, the target was achieved with 531 inpatients/day cases waiting more than 26 weeks.
- 2.31 Spend on waiting times in 2004/05 to achieve these targets was reported as £17.73 million, with £6.16 million funded recurrently and £11.16 million funded non-recurrently. NHSGG has used the National Waiting Times Centre and private provision to ensure the waiting times target was achieved.
- 2.32 SEHD has set an 18 week maximum wait for both outpatients and inpatient/day case treatments, to be achieved by 31 December 2007. It is anticipated that achievement of the 2007 targets will be challenging both in operational and financial terms.

3. The Audit Process and Accounting Issues

Changes from 2003/04

- 3.1 From April 2004, "Partnership for Care" removed organisational barriers in local health systems with the dissolution of NHS Trusts. The four Glasgow Trusts transferred their functions, staff and assets to new operating divisions of the NHS Greater Glasgow Board.
- 3.2 This new structure has removed the obligation for Divisions to produce statutory accounts. Instead, detailed Divisional accounts templates were produced at the year end, which did not require a specific audit opinion.

Audit Process

- 3.3 The Divisional accounts templates were audited by us during May and June 2005. Presentations have been made to each Divisional Audit Committee outlining the audit process, financial performance and audit issues arising. The overall quality of the accounts templates and working papers were of a reasonable standard.
- 3.4 Thereafter a consolidation exercise was undertaken at Headquarters level, including various consolidation adjustments. This produced various schedules which were utilised to produce overall statutory accounts during late June/early July 2005. This documentation and the statutory accounts were audited during late June/July 2005. The consolidation process has worked well and in a transparent manner. The main matter requiring attention in future years relates to the removal of inter-division trading from the consolidated accounts, where supporting schedules and evidence was not of an appropriate standard.

ACTION POINT 4

3.5 This effective audit process at divisional and consolidation level was achieved against the backdrop of moving to a shared financial service and significant changes to the format of the accounts. The relationships and knowledge established over previous years proved invaluable in completing the process within the required deadlines.

Preparation of Financial Statements

3.6 The NHSGG Board financial statements were prepared in accordance with the accounting requirements contained in the NHS Board Manual for Accounts & supplementary guidance, as issued by the Scottish Executive Health Department (SEHD) and approved by the Scottish Ministers.

Revaluation of Land and Buildings

- 3.7 Following difficulties with the 2004 fixed asset revaluation exercise, SEHD issued a revised set of instructions to Scottish Boards advising them that the 2005 process should be more flexible to better reflect the replacement cost of existing assets taking account of location, modern building techniques and materials.
- 3.8 Following these SEHD instructions, the NHSGG Board appointed an independent private surveyor to carry out a separate valuation of the majority of the estate. NHSGG management believes that this valuation sets more realistic market values for non-operational properties than the previous work of the Valuation Office Agency.
- The overall effect on the land and buildings of NHSGG was a net increase in value of £31 million. This will increase the level of capital charges in future years.
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Debtors

- 3.10 Cashflow from the University of Glasgow is problematic on account of the time taken to pay NHSGG. The NHSGG debtor totalled £1.6 million at 31 March 2005, with approximately a quarter of this aged over 90 days.
- 3.11 The University previously paid by standing order, however this arrangement has now ceased and no further payments were received towards this balance at the time of our audit work in early June.
 ACTION POINT 5

Cedar System

3.12 A number of issues were encountered during 2004/05 in relation to the implementation of the new Cedar system (financial ledger and other supporting processes). In particular this issue arose at PCD and SGD and concerned, for a period, the need for invoices to be processed through the old system. This has now been resolved with one ledger system operating across Glasgow, although it did result in certain audit adjustments to year end balances at SGD.

Medical/clinical negligence claims position:

3.13 The medical/clinical negligence position is as follows:

	2004/05	2003/04
	<u>£'000</u>	<u>£'000</u>
Compensation payments made in year	3,494	1,153
Provision in accounts	9,030	9,780
Contingent liability in accounts (possible obligations where outturn is uncertain)	15,320	15,407

3.14 The provision and contingent liability levels are broadly similar year on year, based on the required calculation method set out within the Manual of Accounts. It is nevertheless worth noting that the level of in year settlements increased by £2.341 million.

Audit Adjustments

3.15 Various audit adjustments were noted, agreed with management and amended in the Divisional accounts or processed through the accounts as part of consolidation.

Other matters arising

3.16 A number of other matters have been raised with Divisional Management Teams, discussed with Divisional Audit Committees and either resolved or agreed for action. None of these matters require to be reported in this Final Report.

4. System of Internal Control

Statement of Internal Control

- 4.1 Our opinion is unqualified on the Board's disclosures contained in the Statement of Internal Controls. The Board has used the correct format for its Statement of Internal Control. The Statement has outlined the processes designed to identify and evaluate principal risks on a Glasgow wide basis. In addition, key elements of the Board's control framework have been highlighted including internal and external audit, risk management, and clinical governance, including the work of the Risk Management Steering Committee.
- 4.2 The Statement also outlines details of control deficiencies in relation to Family Health Service (FHS) patient exemptions. This matter has also been referred to in our audit opinion —see Section 1.
- 4.3 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement. The Statement is in the format presented by SEHD.

Follow Up Report on previous control matters raised for action

- 4.4 Follow up reports on our 2003/04 control recommendations were issued to Divisional Management in January 2005. A pan-Glasgow summary was presented in a report to the NHSGG Audit Committee in March 2005.
- 4.5 Progress can be summarised as follows:

	Number of Recommendations			
	PCD	NGD	SGD	York
Implementing locally (fully or partially)	20	21	26	14
Outstanding locally	-	1	4	-
No longer applicable	2	1	2	4
Requiring Board wide action	2	1	-	-
TOTAL	<u>24</u>	<u>24</u>	<u>32</u>	<u>18</u>

- 4.6 Key areas requiring further action by NHSGG at the time of our review were as follows:
 - Need to develop, test and implement a NHSGG wide Business Continuity Plan and Disaster Recovery Plan
 - Need for improvements in control over stores, physical security and robustness of stock counts
 - Need to keep up to date and utilise authorised signatory lists, in particular for requisitions
 - Need to improve management and control around working time directive requirements

Management have agreed action plans at divisional and pan Glasgow (where relevant) levels to address these issues. ACTION POINT 6

Financial Systems and our 2004/05 Internal Controls Report

- 4.7 Internal Control Reports were also presented to Divisional Management teams in March 2005. These reports were produced following our various visits during February/March 2005 and considered financial governance arrangements and internal control systems operating in 2004/05.
- 4.8 A summary of these findings was included in the March report to the NHSGG Audit Committee. Areas where management action was agreed concerned:
 - The need to put in place improved financial reporting at Board level, supported with standardised Divisional reports and including better links between activity and spend.
 - The establishment of a centrally held contract register.
 - The need to ensure that all Executive Directors are made fully aware of their personal objectives and that these objectives are approved before the start of each financial year.
- 4.9 Management have agreed action plans at divisional and pan Glasgow (where relevant) levels to address these issues. ACTION POINT 6

Internal Audit's Report on the Board's Internal Controls

4.10 The extract from the Internal Auditor's opinion for 2004/05 (received by the Board on 12 July 2005) is reproduced below:

"On the basis of the work undertaken in the year ended 31 March 2005 we consider that the Board generally has an adequate framework of control over the systems we examined (subject to implementation of the recommendations). In providing such an assessment we would draw to your attention our summary findings as presented in our individual reports issued throughout the year".

Termination Packages

4.11 The Board had no reported settlements for senior officers during the year.

5. Standards of Conduct, Integrity and Openness

Single System Working

Background

- 5.1 It is acknowledged that progress towards a fully functioning single system had been planned over a two year period ending 2006. Progress is now tangible and real changes are evident throughout the organisation.
- 5.2 The approval of a new organisational Structure, and the communication of this plan to Non-Executive Members and Senior Managers, was a major milestone in the change process, and it is recommended that governance and control arrangements around this structure are approved and implemented as a matter of priority.

Governance Approach

- 5.3 Given the scale and complexity of the governance and management arrangements that existed pre 1 April 2005, it was recognised that attaining a single system solution would be difficult to achieve. As a result, the Board decided to adopt a staged approach to single system working that included the operation of transitional governance arrangements prior to full implementation
- 5.4 During 2004/05 further work has been undertaken by the NHSGG Board to develop proposals and action plans to implement single system working across the unified structure. This was issued for consultation in December 2004.
- 5.5 In February 2005, the Board considered consultees' comments on the new organisational arrangements proposed in order to implement the next steps of the *"Partnership for Care" White Paper.* This included agreement on the new organisational structure.
- 5.6 At the March 2005 Board meeting, the Chief Executive provided a progress report across key strands of work, which included clinical governance, risk management and other governance arrangements. It is intended that the new governance arrangements will be implemented following completion of the annual accounts and annual review processes. Existing arrangements will continue through to implementation.

- 5.7 These proposals will pave the way for moving to the detailed development of new organisational structures incorporating:
 - **Establishment of Community Health Partnerships**—Schemes of Establishment have been submitted for approval to the Health Minister for eight of the proposed CHP's.
 - **One Acute Operating Division -** an Acute Operating Division will be implemented for the planning and delivery of all acute services across NHS Greater Glasgow. These services will be managed by eight major Directorates that will exist within the Division, each led by a nominated Director.
- 5.8 These new arrangements will also reflect Public Health, Health Promotion and Planning consideration of the extent to which resources from the Board's Public Health, Health, Health Promotion and Planning Directorates will be devolved to the new delivery organisations and ensuring that CHPs, in particular, are supported in discharging their roles in improving health and tackling inequalities.
- 5.9 Through its Child Health Strategy Group, the Board recognises the importance of ensuring that Community Child Health Services linked with Children's and Family Social Work Services forms part of the CHP structure. operate
- 5.10 Similar consideration is being given to the appropriate structures for delivering Mental Health Services.
- 5.11 The element of the governance arrangements which saw the introduction of divisional governance fora was not as effective as planned. Certain governance Committees were not always quorate and their links to the NHSGG Audit Committee was not wholly effective.
- 5.12 The past year has been a period of planned transition for NHS Greater Glasgow, and has brought a whole new set of challenges for the organisation. As NHSGG enters 2005/06, these challenges will increase. It is therefore imperative that a robust and dynamic governance framework is put in place, with established processes of communication and control, is understood by all.

Integrated Financial Services

- 5.13 Work has been ongoing to implement an integrated finance organisation to support single system working, with tangible results becoming evident.
- 5.14 A Glasgow Integrated Financial Services (GIFS) Group has operated throughout 2004/05 and has commenced the implementation of a "single system" Operational Financial Services structure. Interviews and appointments to this structure were completed during March 2005.
- 5.15 In addition to the GIFS Group, NHSGG has in place a pan Glasgow Financial Issues Group (FIGS) which is responsible for addressing pan Glasgow financial issues and includes both internal and external representatives.
- 5.16 Financial ledger integration has now been undertaken by the five divisions, with the Yorkhill Division migrating to the new CEDAR system in June 2005. In relation to the implementation process for the new ledger system, certain teething issues were encountered which have now been resolved (see paragraph 3.12).

6. Report on Interviews with Non Executive Directors

- 6.1 We interviewed a number of Non Executive Directors, including Divisional Chairs of NHSGG.
- 6.2 We collated their views on a number of issues to assist improvements in governance and non Executive involvement/understanding within NHSGG.
- 6.3 Through this period of transition for NHSGG, the key themes considered in the report were as follows:
 - The Board, Roles and Responsibilities;
 - Governance Monitoring Performance;
 - Single System Working;
 - Community Health Partnerships (CHPs); and
 - The Acute Services Strategy
- 6.4 It is also worth noting that the Chairman (supported by the Chief Executive) has already taken (or is in process of undertaking) further action to address the matters raised in this report concerning Non-Executive roles and responsibilities, the Board seminar programme, Board reporting and governance arrangements under single system working (in particular in relation to CHPs).
- 6.5 The report has been submitted previously to the 13 June 2005 Audit Committee and an action plan has been agreed.

7. Staff Governance Follow Up Report

- 7.1 As required by the national staff governance framework we have undertaken a review of NHSGG's staff governance arrangements, with the focus being on compliance with Audit Scotland's Self Assessment Tool. This included:
 - An assessment of progress against the prior year's staff governance action plan;
 - A review of how the Self Assessment process had been undertaken in the current year, using both qualitative and quantitative indicators; and
 - Consideration of the reasonableness of the 2005/06 action plan.
- 7.2 On the basis of our findings at the time of the review which have been reported to and agreed with management, our assessment was as follows:
 - Progress is being made against the actions from the prior year. Of the 113 actions agreed last year 36 were fully implemented, 65 were partly implemented or ongoing and 12 were not implemented;
 - In general those actions taken were beginning to have the desired impacts. Individual Divisions are starting to adopt and implement NHS policies and
 procedures regarding Staff Governance. However on a Glasgow wide basis, there has been limited progress to take forward and embed Staff Governance
 on a single system basis. The robustness of NHSGG's self assessment process could have been improved, particularly with regard to taking a Glasgow wide
 approach.
 - The updated action plan was produced within very short timescales which has limited the extent of involvement and formal approval. This may impact adversely upon its credibility and ownership. A more recent single-system action plan has been produced and this has now been taken forward by the Area Partnership Forum and a process has begun to ensure wider staff side input to the action plan.
 - The specified statistics for the Self Assessment were not available for each individual Division. As a result of difficulties in producing the statistical information and the inconsistent approach across Divisions, it is not possible to state whether these have been produced in accordance with SEHD instructions.
 ACTION POINT 9

8. Prevention and Detection of Fraud and Irregularities

Fraud and Corruption Reviews

8.1 As part of our rotational plan to review the key systems and methods for the prevention and detection of fraud and corruption we have conducted a review of the Board's overall arrangements and policies. No major issues of concern were identified although it is worth noting that many of these continue to operate on a divisional basis to divisional level requirements. Divisional arrangements should be amalgamated to a NHSGG wide common level at the soonest opportunity.
ACTION POINT 7

Fraud and Irregularities Guidance

8.2 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2004/05 and undertaken work accordingly. There were no matters for reporting here from this work.

Fraud Submission

8.3 A return has been made to Audit Scotland of all the reported frauds (18 in total) that have occurred within NHSGG during the year. In total 12 frauds were reported under £2,000 and 6 over £2,000. The largest individual fraud reported during the year was estimated at £15,000. We noted that actions have been taken by NHSGG to minimise the risk of further similar frauds occurring in the future and that this process was overseen by the appropriate Divisional Audit Committee.

9. Priorities and Risk Framework Report

Priorities and Risk Framework Report

- 9.1 To assess the effectiveness by which all NHS Scotland bodies are implementing required reforms, Audit Scotland have included within their 2004-07 Corporate Plan the requirement for 'the development of a 'Priorities and Risk Framework' for each sector which will identify key national initiatives within that sector and the main risks in their achievement'.
- 9.2 We consulted with numerous personnel and reviewed selected evidence within NHS Greater Glasgow (NHSGG) at both Board and Divisional level and assessed NHSGG's status in addressing the eight key areas of the Risks and Priorities Framework, namely:
 - Governance
 - Service Sustainability
 - Financial Management
 - Performance Management
 - Pay Modernisation
 - Workforce Management
 - Joint Future
 - Information Management
- 9.3 The subsequent report (presented to the NHSGG Audit Committee on 13 June 2005) summarises our findings and assessment in relation to each of the eight key areas of the Priorities and Risks framework and, where relevant, highlighted key areas for further development. An action plan has been finalised by the NHSGG CMT to address these recommendations which has been considered at the Audit Committee. Key areas for development included within the recommendations can be summarised as follows:
 - Governance structures and key staffing appointments under single system arrangements
 - Supporting and maintaining Non-Executive's awareness of major change projects
 - The findings from recent NHS Quality Improvement Scotland reviews
 - Board wide risk management arrangements and consistent control systems for finance, HR etc
 - The future development of the Acute Services Programme including better integration of workforce planning
 - Reporting to the Board and PRG under new single system arrangements and closer alignment between strategic objectives and the reporting of financial outturns
 - Performance management arrangements under single system working
 - NHSGG wide IT strategy, Disaster Recovery planning and Business Continuity planning

ACTION POINT 10

10. Acute Services Programme

- 10.1 The Acute Services Programme is scheduled to run until 2012 and will likely involve developments concerning the Beatson, Stobhill and Victoria (Ambulatory Care and Diagnostic Centres —ACADs), Southern General Hospital, Glasgow Royal Infirmary, Gartnavel Hospital and Children's Services.
- 10.2 During 2004/05 our review has been restricted to the Stobhill and Victoria ACADs developments.
- 10.3 Our review to date of the ACADs development has been previously reported to management on 8 August 2003, 17 October 2003, January 2004 and 29 June 2005.
- 10.4 In terms of value for money, key documents such as NHSGG's response to the Partnership UK report and the Ernst &Young working documents that back up NHSGG's VFM conclusions have recently been made available to us (end June 2005).
- 10.5 As this supporting information has only recently been made available to us and depending on the completeness of this information, and the availability of appropriate explanations, we intend reporting our findings to NHSGG's PRG during August 2005.
- 10.6 A wider status review of the full Acute Services Programme is scheduled for later this year.

11. Integration of NHS Argyll and Clyde

- 11.1 Recently and subsequent to the year end, the Minister for Health has announced the intention to dissolve NHS Argyll and Clyde (Statement to Parliament —19 May 2005). Significant parts of NHS Argyll and Clyde may potentially be integrated into NHSGG from 1 April 2006.
- 11.2 A public consultation exercise concerning which parts may transfer to NHSGG and NHS Highland is anticipated to commence in early August 2005 for 3 months.
- 11.3 As reported in our previous reports, NHSGG is currently in the middle of a number of higher risk/profile change programmes including the ongoing move to single system working practices; the creation of one Acute Division and nine Community Health Partnerships; a Mental Health Partnership; a system wide Acute Services Programme; and a challenging financial recovery plan.
- 11.4 NHS Argyll and Clyde would bring with it a number of particular challenges in terms of service sustainability, financial imbalance and staff retention.
- 11.5 As a result, it is of high importance that NHSGG plans fully for the level of robust governance, programme control and people involvement (both public and staff) that will be necessary to integrate those parts of NHS Argyll and Clyde which may potentially transfer following public consultation.
- 11.6 At the appropriate stage, a detailed, clear and agreed programme of actions, including regular reporting to the Board, up to and after integration date will be a prerequisite.
 ACTION POINT 11

12. Effective Financial Reporting - Additional VFM Study Spanning 2004/05 and 2005/06

- 12.1 We are undertaking a review of the effectiveness of financial reporting formats within NHS Greater Glasgow.
- 12.2 Our review includes working with senior Executives and Non-Executives as well as researching best practice in this area.
- 12.3 Initial reporting proformas for Board, Acute Division, CHP and Mental Health Partnership levels have been prepared and are being discussed and refined.
- 12.4 Workshops have taken place and are planned for the future.

ACTION POINT 1

Appendix 1: Action Plan

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 1	It has been agreed with Management that there is a need to improve financial reporting to the Board and develop revised reporting arrangements for the whole of NHSGG under the single system - incorporating the new Acute Division, CHP's, the Mental Health Partnership and the Acute Services Review.	Director of Finance	Throughout 2005/06
Action Point 2	Management need to identify and report further action to close the existing net deficit position forecast for 2005/06 of \pounds 10.4 million.	Chief Executive / Director of Finance	Throughout 2005/06
Action Point 3	NHSGG needs to complete all the matching of relevant jobs to the Agenda for Change framework at the earliest opportunity, as the original deadline date has not been achieved.	Director of Human Resources	Throughout 2005/06 (by March 2006)
Action Point 4	Improvements require to be made to supporting schedules and evidence to support the removal of inter-division trading from the consolidated annual accounts	Director of Finance	March 2006
Action Point 5	Due to the cashflow issues encountered in receiving payment for amounts due from the University of Glasgow, it is recommended that a more effective system of collection is re-introduced, possibly the standing order arrangement which existed previously.	Director of Finance	October 2005

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 6	NHSGG needs to address those matters recommended for action in our previous audit reports, in particular;	Contained in individual Divisional level and	Various due dates
	• The need to develop, test and implement a NHSGG wide Business Continuity Plan and Disaster Recovery Plan	consolidated Board level Control Reports	
	• The need for improvements in control over stores, physical security and robustness of stock counts	(see Appendix 4)	
	• The need to keep up to date and utilise authorised signatory lists, in particular for requisitions		
	• The need to improve management and control around working time directive requirements		
	• The need to put in place improved financial reporting at Board level, supported with standardised Divisional reports and including better links between activity and spend.		
	The establishment of a centrally held contract register.		
	• The need to ensure that all Executive Directors are made fully aware of their personal objectives and that these objectives are approved before the start of each financial year.		
Action Point 7	The approval of a new organisational structure including CHPs, is a major milestone in the change process, and it is recommended that governance and control arrangements around this structure are developed and implemented as a matter of priority. This should include the replacement of Divisional level policies and procedures with NHSGG arrangements at the soonest opportunity.	Chief Executive	December 2005
Action Point 8	Actions outlined in the report resulting from meetings with Non-Executive Members and Divisional Chairs are in progress. The Chairman and Chief Executive, should ensure these are implemented at the earliest opportunity, particularly in relation to:	Chair / Chief Executive	Throughout 2005/06
	Board and Non-Executive roles and responsibilities		
	Governance, control and monitoring arrangements		
	The Board seminar programme		
Action Point 9	As agreed, a more co-ordinated and efficient approach should be put in place for the achievement of the key recommendations resulting from our work on the NHSGG Staff Governance arrangements —as contained in our separate report on this matter.	Director of Human Resources	November 2005

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
Action Point 10	 Management should ensure that the separate recommendations in relation to the Priorities and Risk Framework report are completed fully and in accordance with the agreed action plan, in particular to the following specific matters: Governance structures and key staffing appointments under single system arrangements 	Chief Executive Chief Executive / Director of Human Resources	December 2005 August 2005
	 Supporting and maintaining Non-Executive's awareness of major change projects 	Chief Executive	Throughout 2005/06
	The findings from recent NHS Quality Improvement Scotland reviews	Medical Director	September 2005
	Board wide risk management arrangements and consistent control systems for finance, HR etc	Medical Director (Risk)	August 2005
		Corporate Management Team (Consistent Systems)	March 2006
	• The future development of the Acute Services Programme including better integration of workforce planning	Director of Human Resources (Workforce Planning)	December 2005
	• Reporting to the Board and PRG under new single system arrangements and closer alignment between strategic objectives and the reporting of financial outturns	Director of Finance	Throughout 2005/06 (by March 2006)
	Performance management arrangements under single system working	Director of Planning and Community Care	November 2005
	 NHSGG wide IT strategy, Disaster Recovery planning and Business Continuity planning 	Director of Finance / Director of Public Health	December 2005
Action Point 11	Significant parts of NHS Argyll and Clyde may potentially be integrated into NHSGG from 1 April 2006.		
	At the appropriate stage, a detailed, clear and agreed programme of actions, including regular reporting to the Board, up to and after the proposed integration date will be necessary.	Chief Executive	Throughout 2005/06 (depending on outcome of consultation)

We recommend that the Corporate Management Team ensures delivery of this action plan and the Audit Committee/Board monitors prompt completion, together with those action plans contained in our previously submitted reports set out in Appendix 4.

Appendix 2: Responsibilities of External Audit and the Board and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Board and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Board regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Board and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Board or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Board. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Board and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Board to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the Board to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Board has put in place to secure economy, efficiency and effectiveness in its use of resources.

We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Board during the year and as listed at **Appendix 4**.

Appendix 3: Audit Opinion

Independent Auditor's report to the members of NHS Greater Glasgow, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements which comprise the Operating Cost Statement, the Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and notes set out on pages 17 to 34 and 36 to 56 under the National Health Service (Scotland) Act 1978. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out on pages 21 to 25.

This report is made solely to the parties to whom it is addressed, and not to individual members, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Respective responsibilities of the Board Members, Accountable Officer and Auditors

As described on pages 9 and 13, the Board and the Accountable Officer of NHS Greater Glasgow are responsible for the preparation of the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder. The Accountable Officer is responsible for ensuring the regularity of expenditure and income. The Board and Accountable Officer are also responsible for the preparation of the Directors' Report. Our responsibilities, as independent auditors, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.

We report our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder and whether, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, NHS Greater Glasgow has not kept proper accounting records, or if we have not received all the information and explanations we required for our audit.

We review whether the Statement on pages 10 to 12 complies with the guidance issued by the Scottish Executive Health Department, "Corporate Governance: Statement on Internal Control". We report if, in our opinion, the statement does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the Statement covers all risks and controls, or form an opinion on the effectiveness of NHS Greater Glasgow's corporate governance procedures or its risk and control procedures.

Additionally, we read the Directors' Report published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, which requires compliance with relevant United Kingdom Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income shown in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of NHS Greater Glasgow and the Accountable Officer in the preparation of the financial statements and of whether the accounting policies are appropriate to NHS Greater Glasgow's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error, and that, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

Financial Statements

In our opinion, the financial statements give a true and fair view of the state of affairs of the Board as at 31 March 2005 and of its net operating cost, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder.

Regularity

The Counter Fraud Services (CFS) of the National Support Services (NSS) performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for NHS Greater Glasgow for 2004/05 suggests that exemptions amounting to £6.1 million may have been given that were not eligible. As a result of the work by the CFS and the potential control deficiencies which may exist, the Board has outlined this matter concerning patient exemptions in its Statement of Internal Control and Directors' Report.

In our opinion and taking account of the above noted matter, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP Glasgow 26 July 2005

Appendix 4: PwC Reports in 2004/05

	NGD	SGD	PCD	YORK	GGHB HQ	Consolidated NHSGG
Audit Plan	1	✓ ✓	1	1	✓	✓
Follow Up Report	1	<i>✓</i>	1	1	1	✓
Internal Control report	1	1	1	1	1	✓
Staff Governance						✓
Priorities and Risk Framework Report						1
Non Executive Feedback Report						1
Financial Reporting Formats						Over 2 years
Report/Presentation to Audit Committee	1	1	1	1		1
Final Board Report						1
Final Management Letter (if required)	1	1	1	1	1	

Appendix 5: Key to commonly used acronyms

NHSGG	-	National Health Service Greater Glasgow	
PRG	-	Performance Review Group (Sub Committee of the Board)	
PCD	-	Primary Care Division	
NGD	-	North Glasgow Division	
SGD	-	South Glasgow Division	
York	-	Yorkhill Division	
PwC	-	PricewaterhouseCoopers LLP	
CMT	-	Corporate Management Team	
SEHD	-	Scottish Executive Health Department	
FHS	-	Family Health Services	
CHPs	-	Community Health Partnerships	

Freedom of Information (Scotland) Act 2002

This report is intended solely for the information of the Members of the Board of NHS Greater Glasgow and the Auditor General for Scotland. In the event that, pursuant to a request which these parties receive under the Freedom of Information (Scotland) Act 2002, it will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. NHS Greater Glasgow agrees to pay due regard to any representations which PwC may make in connection with such disclosure and NHS Greater Glasgow shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, NHS Greater Glasgow discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed. PricewaterhouseCoopers LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

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June 2006

NHS Greater Glasgow

Annual Report to Board Members

2005/06 Audit





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The Members of the Board Greater Glasgow Health Board 350 St Vincent Street GLASGOW G3 8YT The Auditor General for Scotland Audit Scotland 110 George Street EDINBURGH EH2 4LH

27 June 2006

Our ref: CDR/MW/LM

Ladies and Gentlemen

Annual Report to Board Members 2005/06

We have completed our audit of Greater Glasgow Health Board (the "Board" or "NHSGG") and its financial statements for the year ended 31 March 2006.

The Annual Report which follows is primarily designed to direct your attention to matters of significance that have arisen out of the 2005/06 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

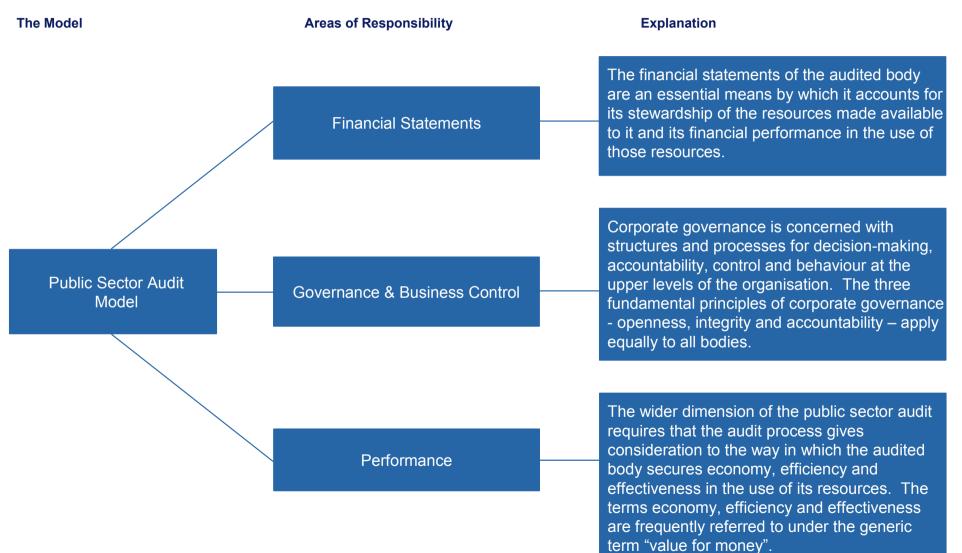
Yours faithfully

PricewaterhouseCoopers LLP

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Our Report Structure

Our report structure reflects our wider public sector audit responsibilities as set out in Audit Scotland's Code of Audit Practice.



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Performance and Business Issues

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- Appendix 6 Key to commonly used acronyms

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1. Audit Opinions and Financial Targets

Our Audit Opinion

- 1.1 Our audit opinion concerns both the true and fair statement of NHS Greater Glasgow's ("NHSGG") financial results for the year ended 31 March 2006 (2005/06) and the regularity of its income and expenditure in the year.
- 1.2 Our true and fair opinion on the financial statements is unqualified.
- 1.3 Our regularity opinion on income and expenditure draws attention to patient exemptions with regard to pharmacy, dental and ophthalmic charges. The Counter Fraud Services (CFS) of the National Services Scotland (NSS) performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for NHSGG (now NHSGG&C) for 2005/06 suggests that exemptions amounting to £7.2 million may have been given that were not eligible. As a result of the work by the CFS and the potential control deficiencies which may exist, the Board has outlined this matter concerning patient exemptions in its Statement onInternal Control and Directors Report. We also draw attention to this matter in our audit opinion.
- 1.4 It should be highlighted that these non-eligible patient exemptions result from weaknesses in the control systems at the point of sale e.g. third party pharmacy counters. NHSGG has introduced a number of initiatives and measures to improve the controls around the patient exemptions process over the last few years.
- 1.5 Our opinion is set out in full in **Appendix 3.**

Financial Targets

1.6 The Board's performance against its three financial targets were as follows :

Financial Targets	Achievement
Net resource limit should not exceed the Revenue Resource Limit ("RRL")	The Board spent £1,358.0 million against its RRL of £1,370.3 million, resulting in a surplus of £12.3 million.
Capital Resource Limit ("CRL")	The Board stayed within its CRL – spending $\pounds 69.337$ million against its CRL of $\pounds 69.460$ million.
Cash Requirement Target	In material respects, the Board stayed within its target – it spent £1,323,403 million against a limit of £1,323,400 million.

2. Financial Performance and Commentary

2.1 For information the actual financial outturn for 2005/06, and the projected outturn for 2006/07, are summarised in the table below. The figures are presented in a format which identifies the amount of recurring and non-recurring income and expenditure and the underlying position for both years.

The Board's Overall Financial Position	2005/06	2006/07		
	£'m	£'m	£'m	£'m
	Actual	Actual	Actual	Actual
Recurring Income		1,332		1,377
Recurring Expenditure		(1,348)		(1,387)
Underlying recurring deficit before recurring corporate savings		(16)		(10)
Add : Corporate Savings Target		10		10
Underlying Position		(6)		0
Non-recurring income	34		33	
Non-recurring expenditure	(20)		(40)	
Balance of non-recurring		14		(7)
Net position before other income sources		8		(7)
Other Income Sources		4		7
Surplus for 2005/06		<u>12</u>		<u>0</u>

Per above table £'m		As per Annual Accounts	£'m
Recurring Expenditure	(1348)	Total Clinical Expenditure (net)	(1429)
Non Recurring Expenditure	(20)	Administration Costs (net)	(11)
Corporate Savings Target	<u>_10</u>	Other (net)	82
Net Resource Out-turn	<u>1358</u>	Net Resource Out-turn	<u>1358</u>

2.2 It is emphasised that we do not express a specific audit opinion on the figures which follow on pages 7 to 12 – these have been extracted in agreement with management from various reports, supporting papers and other available documentation.

<u>Pro</u>	jected versus Actual Financial Position 2005/06	£'m	£'m
Initia	al projected financial position for 2005/06 (Board approved in May 2005)		(10.4)
1.	Main reductions in Projected Income (recurring) :		
	i West of Scotland Health Board Income	(1.2)	
	ii Asylum Seekers Services	<u>(1.5)</u>	(2.7)
2.	Main changes to in – year financial pressures (recurring):		
	i Energy Costs		<u>(3.5)</u>
			(16.6)
3.	Additional Funding		
	i Waiting Times	4.7	
	ii Land Sales	<u>3.5</u>	8.2
4.	Other Actions		
	i Additional savings and release of provisions for expenditure commitments not yet underway	у	20.7
Actu	al financial position for 2005/06 (per Annual Accounts) - surplus		<u>12.3</u>

Financial Out-turn 2005/06 – Commentary

Annual Financial Plan

- 2.3 The Board approved its Annual Financial Plan for 2005/06 in May 2005. At this stage an overall deficit of £10.4 million was projected. In addition, up to £12.2 million of potential costs were identified relating to the implementation of the new GMS contract.
- 2.4 However, following approval of the plan by the Board ;
 - The SEHD provided additional funding in relation to the new GMS contract implementation.
 - Following discussions with the SEHD, NHSGG agreed to revise its Plan to incorporate an additional cost improvement target of £10.4 million.
- 2.5 The result was that, at the mid year financial review, the Financial Plan for 2005/06 predicted a breakeven out-turn for the year.
- 2.6 The following paragraphs explain the principal reasons why the predicted breakeven position became a £12.3 surplus by the year end it should be read in conjunction with the tables at paragraphs 2.1 and 2.2.

Actual Out-turn

- 2.7 In year, the financial model used to calculate the values of West of Scotland cross boundary patient flow income was updated to incorporate 2004/05 patient activity levels. As a result, the net additional income attributable to NHSGG reduced from £6 million to £4.8 million a reduction in income of £1.2 million.
- 2.8 In addition, additional funding budgeted for providing services to Asylum Seekers totalling £1.5 million was not secured.
- 2.9 Unplanned cost pressures emerging in-year consisted mostly of increased energy costs and increased spend on nursing, although these were managed in part by compensating cost containment measures and the release of funding provisions at the year end.
- 2.10 There were a number of funding provisions made within the 2004/05 and 2005/06 Local Health Plans related to expenditure commitments which did not get underway in-year. This included provisions for additional expenditure on a range of commitments, both national and local, where implementation dates are not yet agreed or delayed relative to original estimates and plans.
- 2.11 Mid-year, NHSGG Management reviewed all such expenditure commitments to identify provisions which could be released. This exercise indicated that £20.7 million could be "released" in 2005/06. This has contributed to the achievement of a surplus of £12.3 million and enabled the Board to meet the additional cost improvement target required by the SEHD.

Significant Cost Pressures 2005/06

2.12 NHSGG faced various cost pressures in 2005/06. A number of these are explained in the paragraphs which follow.

Agenda for Change

- 2.13 Agenda for Change (AFC) is a major change programme in the NHS, designed to modernise pay structures, assist service delivery of patient care, aid recruitment and retention and allow for the personal development of staff. The new pay structure consists of nine pay bands and several pay points within each pay band. Individual posts are placed in the correct pay band by either matching the job to the national profile or a local job evaluation.
- 2.14 Additional resources were committed by the NHS Board under the direction of the AFC Steering Group and 4,779 posts have been matched covering 17,612 employees. This and the further additional commitment made by the NHS Board to provide full time job matchers should ensure that the revised target date of October 2006 for completion should be met.
- 2.15 A provision of £25.54 million has been included in the 2005/06 Annual Accounts to take account of the financial effect of implementing Agenda for Change.

Action Point 1

General Medical Services Contracts

- 2.16 The General Medical Services (GMS) contract came into effect from 1 April 2004 and represents a fundamental change in the way that General Practitioners are contracted with the NHS.
- 2.17 In financial year 2004/05, NHSGG faced a funding gap in relation to the cost of the GMS contracts due to GP practices in NHSGG achieving higher than funded Quality Outcome Framework (QOF) points than the level funded by the Scottish Executive Health Department. The £4.5 million funding shortfall (total expenditure of £13.9 million compared to funding of £9.4 million), was funded by NHSGG through efficiencies and savings.
- 2.18 A similar financial pressure was identified for 2005/06 and highlighted in the Annual Financial Plan at £12.2 million.
- 2.19 However, shortly after the start of the financial year, the SEHD announced a level of additional funding that enabled NHSGG to cover the full cost of GMS contract implementation in 2005/06. This was subsequently reported in the revised Annual Financial Plan to the Performance Review Group in September 2006.

Consultant Contract

- 2.20 The implementation and effective delivery of the requirements of the Consultant Contract Framework is a critical element of the Scottish Executive Health Department ("SEHD") improvement programme. The new contract provides increased levels of remuneration relating to time based contracts and agreed job plans. The job planning process is based around service needs and priorities; this involves agreement on hours worked linked to service and workforce planning.
- 2.21 All but one of the consultants employed by the NHSGG Board, and who have elected to transfer to the new contract, have now transferred to the new contract and the system is now embedded within working practices.

Waiting Times

- 2.22 Additional spend on waiting times in 2005/06 to achieve relevant targets (refer to paragraph 6.8) was reported as £11.164 million (2005 £17.73 million), with £8.1 million funded recurrently (2005 £6.57 million) and £3.064 million (2005 £11.16) funded non-recurrently. NHSGG has used the National Waiting Times Centre and private providers to ensure the waiting times targets are achieved. The spend attributable to private providers was £1.4 million during 2005/06.
- 2.23 Further information on current and forthcoming waiting time targets and achievements is provided in paragraphs 6.8 to 6.11.

Medical/clinical negligence claims position

2.24 The medical/clinical negligence position is as follows:

	2005/06	2004/05
	<u>£'000</u>	<u>£'000</u>
Compensation payments made in year	8,680	3,548
Provision in accounts	14,425	8,918
Contingent liability in accounts (possible obligations where outturn is uncertain)	18,170	15,320

2.25 Our analysis of the position highlighted that the provision has increased from £8.9 million at year end 2005 to £14.4 million at year end 2006; this was attributable to £2.6 million of new claims arising in-year and increases in the amounts of, and risk factors, associated with existing claims.

Projected Financial Position 2006/07				£'m
Actu	al Repo	orted Surplus – 2005/06		12.3
1.	Less	s: Non Recurring Income		
	i	SEHD Funding	(11.0)	
	ii	Land Sales	(7.5)	(18.5)
Ореі	ning Ur	nderlying Recurring Deficit 2006/07		(6.2)
	-			
2.	<u>Add</u>	itional Funding – 2006/07		
	i	SEHD Uplift 2006/07	78.3	
	ii	Other NHS Boards	2.4	
	iii	Reduction in SEHD funding for unmet needs	(8.0)	72.7
3.		itional Expenditure – 2006/07		
	i	Prior year recurring commitments brought forward	(10.1)	
	ii	Inflation and other pressures – 2006/07	(58.6)	
	iv	New Service Commitments – 2006/07	(25.0)	
	v	Planned non-recurring expenditure (including waiting times)	(15.4)	(109.1)
4.	Savi	ings Plans/Additional Income - 2006/07		
	i	Cost Savings Plans (recurring)	10.0	
	ii	Land Sales (non-recurring)	7.5	
	iii	Waiting List Funding	4.7	
	iv	Other non-recurring funding	3.5	
	v	Forecast Commitments carried forward to 2007/08	16.9	42.6
Fore	cast Po	osition– 2006/07 - Breakeven		0

Projected Financial Position 2006/07

Predicted Pressures

- 2.26 In line with its five year financial plan, NHSGG aims to operate in a position of financial balance from financial year 2006/07 onwards. The plan stresses that from this time, revenue funding would be sufficient to cover all currently identified service commitments, with some scope remaining for new service commitments.
- 2.27 With the majority of costs associated with pay modernisation now identified and embedded into the budgetary process and provisions made for major commitments, key risks to this financial position for NHSGG are : -
 - Growth in prescribing expenditure above forecast levels particularly in years beyond 2006/07;
 - Any further resource commitments that may arise to secure current and forthcoming waiting times targets;
 - Implementation of the Acute Services Programme, in particular entering into contracts for the establishment of two new ACADs, will demand that the values
 of the buildings which are currently used to provide services on the Stobhill and Victoria sites are adjusted to reflect a shorter remaining useful life. This can
 be expected to produce an increase in capital charge costs which will last for the duration of the residual lives of these buildings, due to the "impairment" of
 the buildings. We note that management has raised this issue with SEHD and are seeking to secure additional funding to meet impairment costs; and
 - Modernising Medical Careers is an initiative to change the way that doctors are trained. This has led to a streamlined education process. Currently, the first
 group of students are undergoing the new stage of the process, Foundation 1. This stage is similar to the existing process, and therefore has not resulted in
 any additional costs in 2005/06. The next stage of the process, Foundation 2, will be notably different than the existing process and may result in an adverse
 impact on doctors productivity rates, resulting in backfill costs. It is acknowledged that account of this matter is reflected in NHSGG financial projections.

Financial Management

- 2.28 The current predicted position of financial balance represents a notable achievement for NHSGG and all its staff. The Organisation has undergone a major period of change, with the move to single system and the implementation of major initiatives such as the Pay Modernisation programme and parts of the Acute Services Strategy. Detailed planning, control and monitoring are important elements of a successful financial operation and our work has identified clear indicators of such an environment within NHSGG.
- 2.29 However, financial pressures remain. In addition to those outlined above, the integration of Argyll and Clyde (and the key challenges outlined at Section 9) including a reported underlying deficit estimated at £28.4 million, the move to the new organisational structure and the introduction of the Efficient Government Agenda (refer to Section 10) represent continued challenges. Robust and high standards of financial management will require to be maintained to achieve the projected break-even position.

Action Point 2

3. The Audit Process and Accounting Issues

Changes from 2004/05

- 3.1 From April 2004, "Partnership for Care" removed organisational barriers in local health systems with the dissolution of NHS Trusts. The four Glasgow Trusts transferred their functions, staff and assets to new operating Divisions of the NHS Greater Glasgow Board.
- 3.2 This new structure removed the obligation for Divisions to produce statutory accounts. Instead, detailed Divisional accounts templates were produced at the year end, which did not require a specific audit opinion. Thereafter a consolidation exercise was undertaken at Headquarters level, including various consolidation adjustments.
- 3.3 Progress towards a fully functioning single system had been planned over a two year period ending in 2006. One of the key areas of change was the establishment of a Glasgow wide integrated Operational Financial Service (OFS), which started after the 2004/05 Annual Accounts process, employing approximately 100 staff and based on the Stobhill Hospital site.
- 3.4 Financial ledger integration was undertaken by the five Divisions and overseen by OFS. In relation to the implementation process for the new ledger system, certain teething issues were encountered which have now been resolved.
- 3.5 In addition to the single ledger migration, key challenges faced by OFS included:
 - integrating and retaining existing staff;
 - identifying, recruiting and training new staff ; and
 - harmonising the working and management control environment.
- 3.6 Our Interim Audit in February / March 2006 identified a number of important issues with regard to systems of controls and processes within OFS. These issues were discussed with Management and reported in our Internal Control Report (March 2006). In response, the Financial Services Manager formulated an action plan to address these issues.
- 3.7 Assessment of this action plan at the final audit visit revealed improvements were tangible in relation to control account reconciliations, control of suspense accounts, credit control and payment practices. However, issues still requiring attention remain with regard to bank reconciliations (refer to paragraph 3.16).

Preparation of Financial Statements for 2005/06

- 3.8 The NHSGG Board financial statements were prepared in accordance with the accounting requirements contained in the NHS Board Manual for Accounts ("the Manual") and supplementary guidance, as issued by the SEHD and approved by the Scottish Ministers.
- 3.9 Draft accounts were prepared and presented to us on the first day of the final audit visit. The overall quality of the accounts templates and working papers were of a good standard and represented a substantial amount of work by the OFS Management Team.
- 3.10 The Manual contains several changes to the prescribed format of the Directors' Report. The major changes require Boards to now include within the Report an Operating and Financial Review, which contains a narrative explanation of the main trends and factors underlying the development, performance and position of the Board during the financial year and a summary of performance against the Key Performance Indicators, (agreed for 2005/06 as being those indicators included within the Performance Assessment Framework).
- 3.11 However, a complete Directors' Report was not included within the draft accounts presented for audit and was not available until the end of the audit process.

Action Point 3

- 3.12 In addition, the move to single system working and the merging of the Divisional Ledgers has resulted in a complex ledger structure, with a vast number of cost centres and ledger codes, which was designed to facilitate geographical Divisional reporting.
- 3.13 This complex hierarchy, combined with the first year the current OFS Team has been involved in the annual accounts process, rendered the collation and grouping of amounts on an NHSGG wide basis for the Annual Accounts a difficult task and resulted in several final adjustments to the presentation and lines of disclosure in the Balance Sheet and Operating Cost Statement. Examples related to journal mispostings, the categorisation of balances and the treatment of trading accounts. These amounts were identified as part of the final audit and correcting entries were processed through the final Annual Accounts.
- 3.14 OFS Management continue to improve and refine the working practices and control environment at NHSGG. Whilst specific actions and greater familiarity with the financial ledger and the annual accounts process should ensure the issues noted above are not repeated in 2006/07, it is recommended that OFS management also take steps to refine the financial ledger hierarchy and simplify the coding range currently in place.

Action Point 4

Reconciliation of Bank Accounts

3.15 OFS inherited 29 bank accounts covering all the former Divisions and the Board. All these bank accounts were reconciled to the 31 March 2006 at the commencement of our final audit in May 2006. We noted that in reconciling these bank accounts a number of correcting adjustments were necessary and had been made by management.

Action Point 5

3.16 It is likely that many of these adjustments were necessary as reconciliations did not take place on a regular basis throughout the year. This was reported previously in our interim reporting (see paragraph 4.12) and included, for example, four of the former North Glasgow Division reconciliations containing a large number of unpresented cheques over six months old totalling £313,000, some dating back to June 2004. The write off of these outstanding cheques has been included as part of our audit adjustments.

Inter NHS Balances

- 3.17 SFR 30s show the balances at the year end owing and due from other NHS Boards. Indebtedness between NHSScotland bodies must be eliminated on SEHD consolidation so the net indebtedness reported in each set of NHS accounts must agree.
- 3.18 For financial year 2005/06, NHSGG was obliged to agree SFR30s with 24 other Health Bodies representing total balances of :
 - SFR 30 Debtors£16.413 millionSFR 30 Creditors£ 5.642 million
- 3.19 All balances have now been agreed, although several were agreed after the SEHD recommended deadline of April 30; this was not due to NHSGG delays.

Action Point 6

Audit Adjustments

3.20 Various audit adjustments, including those noted previously in this Section, were agreed with management and all were amended in the final Annual Accounts from the draft version prepared previously.

4. System of Internal Control

Statement on Internal Control

- 4.1 Our opinion is unqualified on the Board's disclosures contained in the Statement on Internal Controls. The Board has used the correct format for its Statement on Internal Control. The Statement has outlined the processes designed to identify and evaluate principal risks on a Glasgow-wide basis. In addition, key elements of the Board's control framework have been highlighted including internal and external audit, risk management, and clinical governance, including the work of the Risk Management Steering Committee. Further details on the governance framework are outlined in **Section 5**.
- 4.2 The Statement also outlines details of control deficiencies in relation to Family Health Service (FHS) patient exemptions. This matter has also been referred to in our audit opinion refer to **Section 1**.
- 4.3 Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Follow Up Report on previous control matters raised for action

- 4.4 Detailed reports were presented and discussed at the two Audit Committee Support Groups in January 2006 and a summary update was presented to the January 2006 Audit Committee.
- 4.5 Of the 75 agreed recommendations made in the reports issued in 2004/05 progress was reported as follows:

Status	Corporate	Partnership	Acute	Total	Total
	Numb	er of Recommen	dations		%
Action Implemented	12	1	12	25	33
Action in Progress	21	3	14	38	51
Limited/Little Progress to Date	0	3	9	12	16
Total	33	7	35	75	100%

- 4.6 Overall, NHSGG had implemented fully 25 out of the 75 recommendations from previous reports. Action was in progress to address all but 12 of the recommendations. Notwithstanding the position at January 2006 we do recognise the commitment to improving the standards of internal control within NHSGG, particularly in a time when systems and control mechanisms are being re-aligned to the new structures.
- 4.7 The replacement of the temporary Divisional structure (which was based on the old Trust structures) resulted in changes to roles, responsibilities, personnel and processes. Indeed a number of our original recommendations, made to these previous Divisions, were no longer relevant. We therefore excluded such recommendations and endeavoured, where necessary, to establish updated responsibilities and timetables for actioning the remaining 50 (of 75) recommendations which have yet to be implemented fully.
- 4.8 Prioritised work is also now ongoing within NHSGG, to coordinate and address the "action in progress/ little progress to date" recommendations, and, as stated, revised action plans have been agreed with management.
- 4.9 Key areas requiring further action by NHSGG at the time of our review were as follows:

Financial Reporting: - the original recommendation advised management to review the financial information presented to the Board, and also consider whether a more standardised format for Divisional reports should be produced.

A review of the formats of reporting to the Board and Divisions is currently underway. A revised Board reporting format has now been agreed and is in process of being rolled out internally. In addition, lead managers in Acute and Partnerships are actively considering improvements to reporting to be implemented in 2006/07.

IT Disaster Recovery Plan – the original recommendation stated that the Board require to develop a Board wide IT disaster recovery plan as a matter of priority.

Development of a single Disaster Recovery and Business Continuity Plan for NHSGG has progressed since January 2006 but is not yet complete.

Authorised signatory lists - a consistent finding at the time of our review was the use of authorised signatory lists that were not up to date. By way of example, a limited sample test of purchase requisition forms within the Acute Division revealed that only 10% of the authorising signatories present on requisitions could be traced to an authorised signatory list.

We note that a process is underway to update Standing Financial Instructions (SFIs) and the Authorised Signatory List and these matters have been discussed at previous Audit Committees. The associated documents are being developed in tandem with the implementation of the new organisational structure and this will be completed by 30 June 2006. An interim Authorised Signatory List was approved by the April 2006 Board.

In parallel with the review of SFIs, a revised Fraud Policy and Action Plan is being prepared in respect of NHS Greater Glasgow and Clyde. This will reflect the partnership agreement with NHS Scotland Counter Fraud Services. This will be concluded by 30 June 2006 and submitted to the Audit Committee for approval.

Action Point 7

PricewaterhouseCoopers LLP

Financial Systems and our 2005/06 Internal Controls Report

- 4.10 An Internal Control Report was also presented at the two Audit Committee Support Groups in March 2006 and a summary update was presented to the March 2006 Audit Committee.
- 4.11 These reports were produced following our various audit visits during January/February/March 2006 and considered financial governance arrangements and internal control systems operating in 2005/06.
- 4.12 A number of important issues were identified with regard to systems of control and processes within the Operational Financial Service (OFS). In response, the Financial Services Manager formulated an action plan to address these issues.
- 4.13 The more significant areas where management action was agreed were the clearance of suspense accounts and the timely preparation and appropriate authorisation of key reconciliations such as bank, creditors and debtors.
- 4.14 Assessment of this action plan at the final audit visit revealed improvements were tangible in relation to control account reconciliations, control of suspense accounts, credit control and payment practices. However, issues remain in relation to the bank reconciliations and have been outlined at paragraph 3.16.

Internal Audit's Report on the Board's Internal Controls

4.15 The extract from the outgoing Internal Auditor's opinion for 2005/06 is reproduced below:

Following a commercial tender process, from 2006/07, the Internal Audit Service for NHSGG&C will be provided by PricewaterhouseCoopers LLP.

Termination Packages

4.16 The Board had no reported settlements for Board level officers during the year. However, as a result of the re-organisation resulting from the move to single system, termination packages were paid to a number of employees.

5. Governance

- 5.1 Through good governance, NHS boards are able to improve services for patients and the working lives of staff that care for them. Governance means setting the strategic direction within the parameters laid down by the Scottish Executive Health Department's policies, providing leadership, setting the tone for the whole organisation, overseeing the control of the Board's work and reporting activities and progress to stakeholders. NHS Board members are, therefore, collectively responsible for the success of their organisation.
- 5.2 Governance within the NHS can be considered under 4 main headings:

Financial and Performance Governance	The proper management of resources and a sound financial standing will enable the organisation to achieve its aims and objectives to meet its obligations as and when they fall due.
Clinical Governance	The Board should have an established clinical governance framework which supports and monitors standards for care, creates an environment for the continuous improvement of services, supports strategic planning and facilitates service delivery.
Risk Management	Responsibility is placed on the Board and primarily the Accountable Officer in the Statement of Internal Control to maintain a sound system of internal control and comply with all applicable laws and regulations.
Staff Governance	NHS employers are expected to have systems in place to identify areas that require improvement and to develop action plans that describe how improvements will be made. The underlying principle is that NHS Boards should recognise that investing in staff will allow them to deliver services to the best of their ability in modern healthcare settings.

Background

- 5.3 The move to a Single System Organisation in accordance with the "*Partnership for Care: Scotland's Health White Paper*" has involved the dissolution of individual Divisions, the creation of one Greater Glasgow wide Board and the formation of Community Health Partnerships.
- 5.4 This reorganisation was not only about major structural change shifting from four NHS Divisions and sixteen LHCCs into a single acute division and partnership arrangements for mental health, primary care and community services but also about transforming ways of working, including the integration of health and social care services, breaking down barriers between primary and secondary care, delivering services across Greater Glasgow and putting health improvement at the centre of the NHS.

Governance Approach

- 5.5 Given the scale and complexity of the governance and management arrangements that existed pre 1 April 2004, it was recognised that attaining a single system solution would be difficult to achieve. As a result, the Board decided to adopt a two year staged approach to single system working that included the operation of transitional governance arrangements prior to full implementation.
- 5.6 During 2005/06 further work has been undertaken by the NHSGG Board to develop proposals and action plans to implement single system working across the unified structure. The key element of this work was the establishment of Single System Committees of the NHS Board from 1st January 2006.
- 5.7 The December 2005 Board approved the remits and memberships of the Audit Committee, Clinical Governance Committee, Staff Governance Committee, Performance Review Group, Research Ethics Governance Committee and Remuneration Sub Committee. Appropriate arrangements were followed in dissolving the Divisional Management Teams and their supporting Committees.
- 5.8 As a result of the move to single system working, the Audit Committee considered the size and complexity of NHSGG's business and its role in the governance structure.
- 5.9 Following consultation with PricewaterhouseCoopers by means of a facilitated workshop for Audit Committee members, it was decided to establish two Audit Support Groups (covering the Acute Division and the Partnerships/Corporate function). It was agreed the Audit Committee would receive and consider reports which covered strategic issues and recognised areas of greater risk. Operational issues and risks would be reported to the relevant Audit Support Group with the Groups providing assurance to the Audit Committee that they had addressed and actioned all necessary matters raised. These groups would also ensure any issues which had, or were liable, to increase in importance were brought to the attention of the Audit Committee in regular reports.
- 5.10 This new structure commenced in January 2006, with subsequent meetings held in March and May 2006, in tandem with the Audit Committee cycle. In addition, the minutes from the Support Groups are now standing items on the Audit Committee agenda.

Financial and Performance Governance

- 5.11 High standards of financial stewardship are achieved through effective financial planning and strategy, financial control, and through maximising value for money.
- 5.12 Monitoring of performance is conducted by the Performance Review Group (PRG). The PRG was established and granted delegated responsibility with powers on behalf of the NHS Board to monitor organisational and financial performance and resource allocation and utilisation. Much of the emphasis of the PRG in the last two years has been on the financial position within NHSGG and the development of the Financial Recovery Plan.
- 5.13 The Group also ensures that there is a co-ordinated overview of performance across all domains of the Performance Assessment Framework (now HEAT). The Group meets bi-monthly (more frequently if required) and the minutes of its meetings are reported to the NHS Board together with recommendations as appropriate.

- 5.14 A good financial and performance governance framework should also enable Board members to make formal decisions of very considerable financial impact at Board meetings with knowledge and confidence. To assist the Board in taking such decisions, Board management have organised dedicated seminars on matters of strategic importance, where members can raise questions, seek further information and challenge management. In total, nine seminars were held in the financial year, with more planned for 2006.
- 5.15 In terms of financial reporting and monitoring, a number of issues were raised in 2004/05 audit reports regarding the quality and consistency of reports. The Director of Finance introduced a number of improvements during 2005/06 and a number of further initiatives are scheduled for 2006/07 supported by training for key staff.
- 5.16 To aid these further developments, in addition, management has established a Finance Transitional Overview Group, chaired by the Director of Finance, and supported by three sub-groups representing Corporate (the Board), Partnerships and Acute. The objective of these sub-groups is to convert the current geography based financial reporting and monitoring structure to a new functional divisional basis, to match the revised NHSGG structure at the 1 April 2006.
- 5.17 Further details of the Performance Framework are outlined at **Section 6.**

Action Point 2

Clinical Governance

- 5.18 The remit of the Clinical Governance Committee has been reviewed and redrafted to reflect single system working, the integration of Clyde and the formation of a Clinical Governance Implementation Group (CGIG). The newly formed Committee held its first meeting during March 2006 and the CGIG held its first meeting in February 2006.
- 5.19 The revised remit confirmed the Committee's role as overseeing and assurance rather than delivering clinical governance. The role of the CGIG was to be responsible, on behalf of corporate management, for developing policy and establishing decisions on strategic priorities deemed essential to clinical governance and the attainment of its goals.
- 5.20 Work is ongoing at present to draft a new Clinical Governance Strategy taking account of the reorganisation of the Board.

Action Point 8

Risk Management

- 5.21 Progress continues to be made with the implementation of the Risk Management Strategy. Consideration has been given to the implications for the strategy as a result of the restructuring within Glasgow and transfer of services from the former NHS Argyll and Clyde Board. This has required a further redrafting of the strategy to reflect NHS Greater Glasgow and Clyde requirements.
- 5.22 In relation to risk identification and assessment, steps have been taken to develop a consistent protocol that will apply across the single system.

5.23 The main outstanding area continues to be the need to update and refresh the corporate risk register. Whilst recognising that structural change has impacted on the development of the corporate risk register we would recommend that this is addressed at the earliest opportunity.

Action Point 9

Staff Governance

- 5.24 The 2005/06 Staff Governance action plan was approved by the Staff Governance Committee in May 2005 and supported by a high level project plan. As part of this project plan, a short term steering group was established to assist in the evidence gathering and data collation required for implementation.
- 5.25 A report was prepared and presented to the 6 March 2006 Staff Governance Committee detailing the progress against the action plan, and outlined actions and priorities for the year ahead. These updated actions and priorities were approved by the Committee and subsequently the Area Partnership Forum, prior to forwarding to Audit Scotland.

Community Health Partnerships

- 5.26 NHSGG's aim has been to establish fully integrated Partnerships which will bring together NHS and Local Authority responsibilities but retain clear individual agency accountability for statutory functions, resources and employment issues. In order to achieve this objective, a model was established containing:
 - Five Community Health and Care Partnerships (CHCPs) with Glasgow City Council;
 - A Community Health and Care Partnership with East Renfrewshire Council;
 - Community Health Partnerships (CHPs) with West and East Dunbartonshire Councils; and
 - One Community Health Partnership developed jointly with NHS Lanarkshire covering the South Lanarkshire area.
- 5.27 The CHP model involves the provision of NHS services only. The CHCP models combine these NHS services with social work services provided by local authorities.
- 5.28 The December 2005 NHSGG Board approved Schemes of Establishment and Standing Orders for the Proceedings and Business and the membership of Committees of the five Glasgow CHCPs and the West Dunbartonshire and East Dunbartonshire CHPs. Similar approvals were subsequently obtained for East Renfrewshire.
- 5.29 Work to develop Schemes of Delegation remains on-going and will be further developed as consideration is given to preparing a Governance Memorandum between Glasgow City Council and NHSGG.

Action Point 10

5.30 Each CHCP/CHP now has its own Director and Management Team. Work is on-going to set up local arrangements for Clinical Governance in each of the CHCPs and CHPs.

- 5.31 Heads of Finance have been appointed and joint budgets are currently being agreed with Local Authority counterparts for 2006/07.
- 5.32 Each CHCP/CHP will align with the overarching Clinical Governance, Finance and Risk Management framework operating for NHSGG&C. Each CHCP/CHP is also drafting its own Development Plan.

Audit Committee Membership

5.33 The NHS Scotland Audit Committee Handbook sets out the key requirements of an Audit Committee. The Handbook highlights that an Audit Committee should be composed of, as a minimum three Non-Executive Directors, with a quorum of two and in particular the duties and experience of Audit Committee non-executive members:

"At least one non-executive director of the Committee should have significant, recent and relevant financial experience, for example as an auditor or finance director. All members of the committee, whatever their background should have an understanding of Board objectives and significant issues, Board structure and culture, relevant legislation and rules, major initiatives and accountability. The Committee as a whole should have knowledge/skills/experience in accounting, risk management and audit."

5.34 We are pleased to report that at present the Audit Committee does contain individuals with financial experience.

6. Performance Management

Local Delivery Plan (LDP)

- 6.1 At the February 2006 Board meeting, the then Director of Planning and Community Care and the Director of Finance led the Board through the format of the Local Delivery Plan (LDP) which had twenty-eight targets, informed by thirty-two key measures distributed across four objectives (HEAT), namely:
 - Health improvement;
 - Efficiency and effectiveness;
 - Access; and
 - Treatment.
- 6.2 The LDP also included sections on waiting targets for inpatients, day cases and outpatients. The Plan was presented to the Board at their February 2006 meeting, and was approved and submitted to the SEHD.
- 6.3 During March 2006 the SEHD communicated back to NHSGG a number of issues arising from the submitted LDP. The Executive's comments focused primarily on target achievement and the rigour of the risk assessment. As a consequence a series of amendments were made to the original LDP and these were presented to the April 2006 Board Meeting.
- 6.4 NHSGG is in the process of agreeing a Performance Management Framework for each of its operating units (Acute Division, Community Health Partnerships and the Mental Health Partnership). These frameworks will cover various areas of performance incorporating the HEAT targets and also local targets aligned with corporate priorities.
- 6.5 Progress on the LDP, together with the outcome of monitoring by the Executive's Local Delivery Unit, will be reported regularly to the NHS Board or Performance Review Group (PRG). The first scrutiny of the LDP is due in Summer 2006 and will feature in the next Annual Review.
- 6.6 The Local Delivery Plan is supported by a financial plan.

Action Point 11

Waiting Times

- 6.7 NHSGG identified national waiting times targets as one of its key performance indicators. Waiting times monitoring systems are in place with regular performance information in this regard being submitted to the Board.
- 6.8 SEHD set a target of a 26 week maximum wait for both outpatients and inpatients/day case treatments to be achieved by December 2005. The Board was successful in meeting the target for inpatients by December 2005, however one outpatient did wait longer than 26 weeks. This single example was identified and quickly resolved in January 2006.
- 6.9 The Board has subsequently turned its attention to meeting the current targets set by the SEHD. These are an 18 week maximum wait from a decision to undertake treatment to the start of the treatment by December 2006 (advanced from December 2007), and an 18 week maximum wait for an outpatient appointment to be achieved by December 2007. Shorter maximum waiting time targets have also been set for specific treatments, such as cardiac intervention. NHSGG has agreed planning milestones with the National Waiting Times Unit (NWTU) for a sustained reduction in over 18 week waits for inpatients/day cases from the current level to zero by December 2006. In addition, NHSGG will include the "Clyde" element in monitoring and reporting for the future due to the dissolution of Argyll and Clyde NHS Board.
- 6.10 NHSGG has also taken account of the range and scope of the new targets, and has begun to develop new ways of monitoring and reporting to the Board.
- 6.11 Spend on waiting times in 2005/06 to achieve these targets is outlined at paragraph 2.22; reported by NHSGG as £11.164 million (2005 £17.73 million), with £8.1 million funded recurrently (2005 £6.57 million) and £3.064 million (2005 £11.16) funded non-recurrently. NHSGG has used the National Waiting Times Centre and private provision to ensure the waiting times targets are achieved, with the spend attributable to private provision costing £1.4 million during 2005/06.

Action Point 12

Pay Modernisation – Benefits Realisation

- 6.12 NHSGG has taken steps to comply with the requirements of HDL (2005) 28 Delivering the Benefits of Pay Modernisation in NHSScotland. This involves a Pay Modernisation Delivery Plan and the establishment of a Pay Modernisation Board. The plan sets out how attainment of pay modernisation benefits against specific measurable and timebound indicators will be measured.
- 6.13 The draft plan was submitted to the SEHD by the prescribed deadline of August 2005 and a six monthly update was compiled as at 31 March 2006 and submitted to the Executive. This was presented to the NHSGG Pay Modernisation Board for approval on 20th April 2006. Ministers will use plans to performance manage and guide progress on benefits realisation.

7. Prevention and Detection of Fraud and Irregularities

Fraud and Corruption Reviews

7.1 As part of our rotational plan to review the key systems and methods for the prevention and detection of fraud and corruption we have conducted a review of the Board's overall arrangements and policies. No major issues of concern were identified although it is worth noting that the redrafting of Standing Financial Instructions and the Authorised Signatory List remain in progress and are due for completion at the end of June 2006. We would recommend an immediate roll-out following Board approval.

Action Point 7

Fraud and Irregularities Guidance

7.2 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2005/06 and have undertaken work accordingly. There were no matters for reporting here from this work.

Fraud Submission

7.3 A return is due to be made to Audit Scotland of all the reported frauds in the year. NHSGG Managers are currently extracting this information from the Fraud Register and anticipates completion and submission by 30 June 2006.

8. Acute Services Programme

- 8.1 The Acute Services Programme (ASP) is scheduled to run until 2012 and involves a significant and fundamental redesign, reconfiguration and modernisation of clinical services and facilities within Glasgow. The implementation of the Strategy involves a four stage process and will likely concern developments at the Beatson, Stobhill, Victoria, Southern General Hospital, Glasgow Royal Infirmary, Gartnavel Hospital and Children's Services.
- 8.2 Over the last few years we have conducted various reviews over elements of the programme. During 2005/06 our reviews were restricted to assessments relating to the developments at Stobhill and Victoria, and the Accident and Emergency Services Reconfiguration.
- 8.3 Our most recent review of the Stobhill and Victoria developments took place in the period May to July 2005. The report produced following this review commented on project management arrangements; affordability; fitness for purpose; and value for money.
- 8.4 A report and presentation was made to the Performance Review Group in September 2005, with an update to the October 2005 Audit Committee.
- 8.5 Our report noted that NHSGG had:
 - operated a formal control framework for advancing the developments.
 - produced projections and assurances to demonstrate the affordability of the project.
 - applied appropriate processes to obtain assurance over the fitness for purpose of the developments.
 - designed processes to provide comfort to enable board members to form an informed view on the VFM aspects of the project.
- 8.6 It should be emphasised that our review did not seek to represent a conclusive position relating to the affordability or VFM aspects of this project or the detail of the Public Sector Comparator risk adjustment. Rather it focussed on the key processes and methods applied by NHSGG and its advisers.

Accident and Emergency Services Reconfiguration

8.7 A key element of the Acute Services Programme is the reconfiguration of Accident and Emergency (A&E) services. The Board of NHS Greater Glasgow agreed the pattern of future provision of A&E Services at its meeting on 27 June 2002. It was also approved in 2002 by the Minister for Health and Community Care, with the proviso that "...it is right that the assumptions that underpinned that decision should be looked at again, when we are a bit nearer any changes to accident and emergency services.."

- 8.8 In response to the Minister's request, NHS Greater Glasgow undertook a number of exercises in 2004/05 to assess the current applicability of the assumptions which underpinned the June 2002 decisions on A&E Services.
- 8.9 In late 2005 a review was conducted by PwC to ensure the Minister's request was undertaken.
- 8.10 A briefing paper covering our scope, key findings and conclusions was presented to the March 2006 Audit Committee.
- 8.11 We stated that, based on the work we completed, it was reasonable to conclude that NHSGG had taken reasonable steps to ensure that the assumptions underpinning the June 2002 decisions remained valid.
- 8.12 We also highlighted that the success of the planned changes to A&E service provision would be heavily dependent on clear and regular communication to the public and other partners, emphasising in our report the importance of NHSGG putting in place a robust communications plan to support the roll out of the revised arrangements. This was agreed with management.

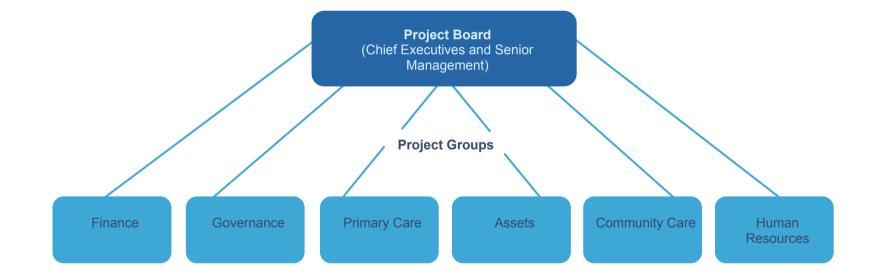
Stage of Acute Services Programme developments

- 8.13 Enabling works have commenced at both Stobhill and the Victoria and the successful private sector Consortium has submitted detailed planning applications.
- 8.14 Timescales for these developments are as follows:
 - start on site targeted for September 2006;
 - completion of the facility by the end of 2008; and
 - following a commissioning period, the hospitals opening in early 2009.
- 8.15 Phase Two (the provision of a South Glasgow Hospital on the Southern General site) is now underway, with work ongoing to address a number of important factors, including bed modelling, transport factors, community engagement and acute admissions. A new Project Executive has been established, reporting to the ASP Programme Board, supported by a number of sub-groups.
- 8.16 The Minister for Health set up the Calder Group to review and approve the Board's options appraisal process for the siting of a new Children's hospital. It reported in March 2006 supporting the NHSGG Board's decision that the facility would be located on the Southern General Hospital site.
- 8.17 In this regard, specialised adult, maternity and children's facilities will be located together on the same site. An Outline Business Case is targeted for completion by December 2006.

Action Point 13

9. Integration of NHS Argyll and Clyde

- 9.1 In May 2005, the Minister for Health announced the intention to dissolve NHS Argyll and Clyde with significant parts being integrated into NHSGG from 1 April 2006. Greater Glasgow will take responsibility for the whole of the West Dunbartonshire and East Renfrewshire Council areas and for the Renfrewshire and Inverclyde Council areas. Remaining areas will be transferred to NHS Highland.
- 9.2 The implementation of the process was overseen by the Argyll and Clyde Project Board, and a Director was appointed on a part-time basis to oversee the integration process. A series of Project Groups were also established to analyse and report on key areas of the project.



Argyll and Clyde Project Board and Group Structure

- 9.3 Each project group had an implementation plan, and the Project Director was responsible for co-ordinating all the plans.
- 9.4 A wide range of reviews, meetings and discussions have taken place between relevant stakeholders. Notable points from the process related to:
 - A joint financial planning subgroup was formed where a number of significant financial issues, including the current underlying financial deficit and risks
 associated with elements of the present Argyll and Clyde savings plan were discussed. As a result NHSGG has made a number of proposals to the SEHD
 regarding the proportion of NHS Argyll and Clyde's core funding allocation to be made available to NHS Glasgow and Clyde and the necessary financial
 support required to successfully integrate and ultimately deliver improved services in the Argyll and Clyde area.
 - A number of human resource issues and risks such as NHS Argyll and Clyde staff who could not be matched into NHSGG or NHS Highland roles and gaps in expertise and local knowledge due to a number of senior staff departures at NHS Argyll and Clyde.
 - A series of meetings have taken place with senior NHSGG Officers and Renfrewshire and Inverclyde Councils to establish relevant CHP's. A Scheme of Establishment for the Renfrewshire CHP was approved (in draft) by the Council on the 16th March 2006 and by NHSGG&C Board on the 18th April 2006.
- 9.5 The integration project is underpinned by a Risk Register, with sub registers for each key area. The Project Board identified and took steps to manage the key risks and challenges for the process; key areas will include:
 - Developing a savings plan to tackle the underlying financial deficit reported at an estimated £28.4 million of the former NHS Argyll and Clyde Health Board; and
 - Merging key operating systems, including finance and human resources, ensuring consistency of working practices with minimum disruption to services and staffing issues.
- 9.6 The integration of Argyll and Clyde represents a major challenge. Robust governance, planning and monitoring procedures will be required to ensure the success of the integration, and to ensure improved and consistent services are delivered throughout the new area and within specified financial parameters.

Action Point 14

10. Efficient Government

- 10.1 The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector'. A key feature of the initiative is that it focuses on the public sector as a whole, rather than individual organisations, with the intention of realising efficiencies through joining up in purchasing, in accommodation, and in support services. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money.
- 10.2 The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings, and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.
- 10.3 As the Board's Corporate Recovery Plan in 2004/05 already contained recurring savings in excess of £20 million, the Board sought to agree a target with SEHD for the three year period to 2007/08 which took account of this previously achieved level of savings. The Board has put in place a total savings target of £37 million over the three year period to 2007/08 incorporating a number of these previously achieved savings.
- 10.4 NHSGG management continue to have discussions with the SEHD regarding NHSGG's submitted savings plan and we continue to liaise with Management over the development of the savings plan.

Audit Scotland – Efficient Government Diagnostic

- 10.5 In addition, Audit Scotland required all auditors to complete, together with their audited bodies, an "Efficient Government Diagnostic" a self assessment tool covering the key themes of the Efficient Government agenda. The diagnostic outlines the themes as: -
 - Asset Management;
 - Managing Absence;
 - Procurement;
 - Shared Support Services; and
 - Streamlining Bureaucracy.

- 10.6 The Diagnostic was circulated amongst senior management for completion and we met with a number of them to understand the information presented. The completed return has been submitted to Audit Scotland and the key findings can be summarised as follows:-
 - NHSGG has in place systems to monitor, measure and report efficiency savings, as part of the overall financial saving and monitoring structure. These systems include a project approval and monitoring process for savings and efficiency plans. In addition, NHSGG&C is currently developing a contract module of the CEDAR information system to become the reporting mechanism for "Efficient Government" savings.
 - Cash releasing savings of £41.1 million have been identified for the three years to 2007/08.
 - In terms of asset management, NHSGG has long established links with Glasgow City Council Social Work, the Universities, Community Groups and GP Practices for sharing accommodation.
 - NHSGG has a centralised procurement function and continues to investigate new methods of collaborative buying arrangements and further initiatives under the efficient government banner.
- 10.7 Audit Scotland intend to collate and compare the "Efficient Government Diagnostics" for all Health Boards across the country and produce an anonymised report drawing out the key themes and findings.

Action Point 15

11. Best Value

Background

- 11.1 Since April 2002 there has been a duty of Best Value on Accountable Officers to "ensure arrangements are in place to secure Best Value". High level guidance was issued in May 2003, followed by more detailed guidance in August 2003. This guidance applied to the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). The duty was described in the guidance as:
 - The duty of Best Value, being to make arrangements to secure continuous improvements in performance; and
 - To have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development.

Purpose

- 11.2 Audit Scotland, in its role to support the development of Best Value across the wider public sector, asked individual auditors to perform high level reviews to determine the extent to which audited bodies have developed arrangements to support their accountable officers' duty of best value. The purpose is not to attempt to assess whether audited bodies have achieved best value but to establish baseline information across the wider public sector on the management arrangements in place for taking forward the Best Value agenda and demonstrating continuous improvement to secure Best Value.
- 11.3 As external auditors of NHSGG, we undertook such a review in April and May 2006. Our analysis provided an overview of the management arrangements in place within NHSGG in support of the Best Value agenda.

Action Point 16

- 11.4 Areas reported in relation to NHSGG included:
 - The Organisation has built on the key principle of continuous improvement through the move to Single System Working, the Acute Services Strategy and involvement in the Regional Planning Framework and Managed Clinical Networks;
 - The Local Delivery Plan was presented at the February 2006 Board meeting which had twenty-eight targets, informed by thirty-two key measures distributed across the four HEAT objectives. Following consultation with the SEHD, an amended version of the plan was submitted to the April 2006 Board Meeting, supported by the five-year financial plan;
 - The Head of Performance Management has been working to ensuring that the messages emerging from the information sent to the Executive in relation to the HEAT targets are embedded within NHSGG&C to drive improvements;
 - Progress on the Local Delivery Plan, together with the outcome of monitoring by the Executive's Local Delivery Unit, will be reported regularly to the NHS Board or Performance Review Group (PRG). The first scrutiny of the LDP is due in the summer 2006;
 - In terms of the balance between cost and quality, it is worth noting that the Board has in the past two years achieved financial balance without any reported major negative effects on services ;
 - A customer focused approach is developed through the level of interaction and consultation with stakeholders through a variety of mediums such as "Health News", "Staff News", the Community Engagement Team, the Involving People Database and the Involving People Committee; and
 - NHSGG's first Race Equality Schemes and associated action plans were published in November 2002 and March 2003 respectively. A new report based on
 progress on the 2002-2005 Race Equality Schemes was presented to the April 2006 Board and a Race Equality Scheme for 2005-2008 was also presented.
 The Scheme is designed to cover how NHSGG will meet the general and specific duties contained within the Race Relations Amendment Act 2000.

Reporting and Timescales

11.5 Audit Scotland's Best Value working group will develop anonymised sectoral reports and an overarching report highlighting key themes and instances of good practice.

12. Other Business Issues

PFI/PPP Schemes

- 12.1 NHSGG operated four PFI/PPP schemes during 2005/06 as follows:
 - An elderly bed facility consisting of 72 beds at Mearnskirk House.
 - A care of the elderly facility, with Town Hospitals, contained within the Southern General Hospital site, providing 210 beds for housing patients in elderly assessment, medicine for the elderly and younger physically disabled.
 - Provision of Hospital Information System (HIS) system, the patient management record system and support for the system, for the Southern General and Victoria Infirmary.
 - Provision of a HIS system for Yorkhill Hospital.
- 12.2 Two additional PFI/PPP schemes have been approved by the Board and are either under construction, or due to commence construction in 2006/07 as follows:
 - Stobhill Forensic Unit. This consists of a 74 bed self standing inpatient unit for patients with forensic psychiatric conditions.
 - Gartnavel Royal Hospital. A self standing mental health hospital containing 117 beds.
- 12.3 Further information regarding PFI/PPP schemes is disclosed in Appendix 4.

Tariffs

- 12.4 National tariffs are to be phased into NHS Scotland in relation to cross boundary flows. These tariffs are intended to replace the current format of recharging for cross boundary flows, that is Service Level Agreements ("SLAs"). These agreements are negotiated, agreed and signed documents that govern the key elements including charges of flows between Boards.
- 12.5 It was intended that these tariffs would be introduced during 2005/06. However it was decided by SEHD in March 2006 that no adjustments were to be made to SLAs in 2005/06. Tariffs are to be introduced for a basket of elective and non-elective activities. The purpose behind the tariffs is to create an incentive to increase efficiency by encouraging benchmarking between hospitals and Boards to identify tariff rates.

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- 12.6 NHSGG financial management have undertaken work to analyse the impact on the Organisation of the proposed national tariffs. This has included benchmarking various procedures against other Boards and undertaking comparisons using the information received from the National Tariff Group.
- 12.7 Whilst we have not undertaken a review of this work, NHSGG's initial view is that rates reflected in current SLAs are close to the proposed tariff rates, potentially limiting any major financial impact to NHSGG in the event of tariff introduction.

Appendix 1: Action Plan

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
1	NHSGG needs to complete the assimilation process for the Agenda for Change framework to ensure the specified deadlines are met.	Director of Human Resources	31 October 2006
	In addition, this should identify any additional costs associated with the initiative and ensure funds are secured from alternative sources to offset any impact on the financial plan.		
2	The merging of Argyll and Clyde, the revised organisational structure and the introduction of the Efficient Government Agenda represent a major challenge to the projected position of financial balance.	Director of Finance	At key milestones throughout 2006/07
	Continued standards of financial planning, control and monitoring will be required to achieve the projected position, or to identify alternative income/savings to manage other in-year pressures. It is imperative revised reporting reflecting the current structure is adopted as soon as possible.		
3	NHSGG management should ensure the Directors' Report is completed on time and in accordance with the prescribed format for the start of the 2006/07 audit process.	Financial Services Manager	31 May 2007
4	OFS Management should continue to improve and refine the working practices and control environment at NHSGG. Whilst specific actions and greater familiarity with the financial ledger and the annual accounts process should ensure the issues raised in our Report are not repeated in 2006/07, it is recommended that OFS management also take steps to refine the financial ledger hierarchy and simplify the coding range currently in place.	Financial Services Manager	31 December 2006
	Part of the process of refining the financial ledger hierarchy should include amending the coding structure concerning trading accounts to avoid double counting of income and expenditure in the Annual Accounts and posting of journals relating to opening ledger balances.		

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
5	It is recommended that the bank account arrangement inherited by OFS is reviewed, with the number of accounts being rationalised.	Financial Services Manager	30 September 2006
	This would enable a more straightforward reconciliation process throughout the year and reduce the number of journal transfers between accounts in order for them to reconcile.		
6	Indebtedness between NHSScotland bodies must be eliminated on SEHD consolidation so the net indebtedness reported in each set of NHS accounts must agree.	Financial Services Manager	30 April 2007
	NHSGG should endeavour to agree all SFR30s by the prescribed deadlines for the 2006/07 Annual Accounts process.		
7	NHSGG needs to address those matters recommended for action in our previous audit reports, in particular;		
	• reviewing and updating the financial information presented to the Board;	Director of Finance	At key milestones throughout 2006/07
	• to develop a Board wide IT disaster recovery plan as a matter of priority; and	IM&T Corporate Lead	31 December 2006
	the updating of the authorised signatory listing.	Financial Services Manager	30 September 2006
8	NHSGG managed should finalise, approve and implement the revised Clinical Governance Strategy.	Medical Director	30 September 2006
	The Strategy should take account of the new Board structure, new partnership arrangements and best practise from NHS QiS. There should also be clear links, where relevant, to other strategic documents such as the LDP and the ASS.		
9	Steps have been taken to develop a consistent protocol, that will apply across the single system, in relation to risk identification and assessment.	Financial Governance and Audit Manager	31 October 2006
	However, the main outstanding area continues to be the need to update and refresh the corporate risk register. Whilst recognising that structural change has impacted on the development of the corporate risk register we would recommend that this is addressed at the earliest opportunity.		
10	A robust and dynamic governance framework is crucial to the success of an organisation. In relation to CHPs/CHCPS, work should continue to develop the governance arrangements between the relevant Councils and NHSGG, particularly Glasgow City Council.	Individual CHCP/CHP Directors	31 December 2006

Report Reference	Issue/Agreed Action	Responsible for Implementation	Due Date
11	NHSGG has embraced the new Performance Management arrangements specified by the SEHD. NHSGG management should ensure the initiatives specified in the LDP are implemented, recorded and reported in accordance with the Performance Management Framework.	Director of Performance Management	30 September 2006
12	It is anticipated that achievement of the 2007 Waiting Time targets will be challenging both in operational and financial terms. NHSGG management should ensure successful continuation of current practices and funding measures to ensure these targets are met.	Chief Executive	Throughout 2006/07
13	The Acute Services Programme Board should endeavour to ensure the timescales for completion of each stage of the project are delivered on time and to cost. Any delays will impact on the objectives of the programme, the projected position of financial balance and may result in disruption to service delivery.	Director of Acute Services Strategy Implementation and Planning	31 December 2006
14	The integration of Argyll and Clyde represents a major challenge for both organisations. Robust governance, planning and monitoring procedures will be required to ensure the success of the project, and ensure improved and consistent services are delivered throughout the new area within specified financial parameters.	Chief Executive	Throughout 2006/07 and beyond
15	NHSGG should continue to promote the ethos of Efficient Government in order to ensure appropriate savings are made. Initiatives around asset management, particularly the sharing of facilities with partner organisations, and procurement arrangements should continue to ensure tangible and measurable savings are achieved.	Various officers (co- ordinated by Director of Finance)	Throughout 2006/07
16	 NHSGG should continue to ensure the processes and procedures are in place to support its duty in relation to Best Value : - being to make arrangements to secure continuous improvements in performance; and to have regard to economy, efficiency, effectiveness, the equal opportunities requirements and to contribute to the achievement of sustainable development. 	Chief Executive	Throughout 2006/07

We recommend that the Corporate Management Team ensures delivery of this action plan and the Audit Committee/Board monitors prompt completion, together with those action plans contained in our previously submitted reports set out in **Appendix 5**.

Appendix 2: Responsibilities of External Audit and the Board and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the Board and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility, we evaluate significant financial systems and associated internal controls and, where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the Board regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the Board and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the Board or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the Board. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach, we consider these arrangements but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the Board and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the Board to put in place proper arrangements to ensure the proper conduct of its financial affairs and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct and the prevention and detection of fraud and corruption.

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It is the responsibility of the Board to put in place proper arrangements to manage its performance in order to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the Board has put in place to secure economy, efficiency and effectiveness in its use of resources.

We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the Board during the year as listed at **Appendix 5**.

Appendix 3: Audit Opinion

Independent Auditor's report to the members of Greater Glasgow Health Board, the Scottish Parliament and the Auditor General for Scotland

We have audited the financial statements of Greater Glasgow Health Board ("the Board") for the year ended 31 March 2006 prepared under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Board, Accountable Officer and Auditors

The Board and Accountable Officer are responsible for preparing the annual report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Board.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited, which solely concerns Board Members and Senior Employees remuneration, have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the Board's compliance with the Scottish Executive Health Department's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In our opinion

- the financial statements give a true and fair view, in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Board as at 31 March 2006 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Regularity

The Counter Fraud Services (CFS) of National Services Scotland (NSS) performs testing in relation to patient exemptions with regard to pharmacy, dental and ophthalmic charges for the whole of Scotland. On the basis of the data obtained, the CFS extrapolates the information to give an estimated (and possible) total value for patient exemptions that may be non eligible. The extrapolation for Greater Glasgow Health Board for 2005/06 suggests that exemptions amounting to \pounds 7.2 million may have been given that were not eligible. As a result of the work by the CFS and the potential control deficiencies which may exist, the Board has outlined this matter concerning patient exemptions in its Statement on Internal Control.

In our opinion and taking account of the above noted matter, in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

PricewaterhouseCoopers LLP Glasgow

27 June 2006

Appendix 4: PPP/PFI Schemes

PFI/PPP Schemes

NHSGG operated four PFI/PPP schemes during 2005/06. These were as follows:

- An elderly bed facility consisting of 72 beds at Mearnskirk House. This contract commenced in 1997 and is due to expire in July 2018. The contract
 encompasses the finance, design, build and operations of the facility. The contract payments provide for the running of the facility including areas such as
 catering and also provides for the staff of the facility, excluding medical and nursing staff.
- A care of the elderly facility with Town Hospitals contained within the Southern General Hospital site, providing 210 beds for housing patients in Elderly Assessment, Medicine for the Elderly and younger physically disabled. This contract commenced in 2001 and is due to expire in March 2029. The contract provides for similar items as above.
- Provision of Hospital Information System (HIS) system, the patient management record system and support for the system, for the Southern General and Victoria Infirmary. The contract originally commenced in 2001, with the supplier changed in February 2003. The contract was renegotiated to include Victoria Infirmary from April 2005. This contract is due to expire in March 2009. The PFI/PPP is for a fully managed service providing a patient records system, as well as clinical services, such as requests for lab tests. This includes software upgrades, statutory required changes to the system, as well as Data Recovery Protection services, which are tested once per annum.
- Provision of HIS system for Yorkhill Hospital. This contract commenced in 1997 and is due to expire in December 2007. The provision is similar to stated above for the Southern General and Victoria Infirmary.

Two additional PFI/PPP schemes have been approved by the Board and are due to start construction in summer 2006. These are as follows:

- Stobhill Forensic Unit. This consists of a 74 bed self standing inpatient unit for patients with forensic psychiatric conditions. This contract is due to commence in March 2007 for 35 years. The capital works for this project commenced in October 2005, with a planned completion date of March 2007. NHSGG would then take over the building for operational use at this time.
- Gartnavel Royal Hospital. A self-standing mental health hospital containing 117 beds is to be developed. This is due to become operational in October 2007, with a contract duration of 30 years. The capital works for this project commenced in October 2005, with a planned completion date of March 2007. NHSGG would then take over the building for operational use at this time.

Appendix 5: PwC Reporting in 2005/06

Agreed Output	Audit Committee	Corporate Partnership Support Group	Acute Support Group
Audit Plan	3	N/A	N/A
Follow-up Reports	3	3	3
Priorities and Risks Framework (PRF)	3	N/A	N/A
Internal Control Reports	3	3	3
Efficient Government	3	N/A	N/A
PRF Update	3	N/A	N/A
Annual Report to Members	3	N/A	N/A
Audit Opinion	3	N/A	N/A
Final Management Report	N/A	3	3
Governance Structures and Risk Management	3	3	3
ASR (including ACADs)	3	N/A	N/A
A&E	3	N/A	N/A
Bed Modelling	3	N/A	N/A

Appendix 6: Key to commonly used acronyms

NHSGG	-	National Health Service Greater Glasgow
NHSGG&C	-	National Health Service Greater Glasgow and Clyde
PRG	-	Performance Review Group (Sub Committee of the Board)
PwC	-	PricewaterhouseCoopers LLP
SEHD	-	Scottish Executive Health Department
FHS	-	Family Health Services
CHPs	-	Community Health Partnerships
CHCP	-	Community Health and Care Partnership
HEAT	-	Performance Targets - (Health improvement, Efficiency and Effectiveness, Access and Treatment)
LDP	-	Local Development Plan

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Greater Glasgow and Clyde Health Board

Report on the 2006/07 audit

Audit scotland

July 2007



Greater Glasgow and Clyde Health Board

Report on the 2006/7 Audit

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Executive Summary

Introduction

Based on our analysis of the risks facing NHS Greater Glasgow and Clyde, in 2006/07 our audit work included: a review of governance arrangements, including the adequacy of internal audit and a Computer Services Review; a review of the Board's financial position and financial management arrangements; and a review of arrangements for Community Health and Care Partnerships. We audited the financial statements, including a review of the Statement on Internal Control. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of Greater Glasgow and Clyde Health Board for 2006/07. The Board carried forward a £12.7 million surplus from 2005/06. The cumulative surplus at 31 March 2007 is £27.3 million, an increase of £14.6m. The Board also recorded net capital expenditure of £129.6 million against a Capital Resource Limit of £132.1 million, an underspend of £2.5 million.

	2006/07 £ Million	2005/06 £ Million
Net operating costs	2,015.7	1943.4
Less capital grants to other bodies	(7.9)	(8.9)
Less FHS non-discretionary income	(113.5)	(95.2)
Net resource outturn	1,894.3	1,839.3
RRL (incl surplus c/f £12.7m)	1921.6	1852.0
Saving against RRL	27.3	12.7
Capital grants	7.9	8.9
Capital expenditure	137.1	78.4
Capital disposals (@ NBV)	(15.4)	(3.9)
Net capital expenditure	129.6	83.4
CRL	132.1	84.6
Saving/excess against CRL	2.5	1.2

Table 1 Financial Performance

The increase in the cumulative surplus has been achieved by securing gains on the disposal of land amounting to £33.1 million, mostly from the sale of the former Woodilee Hospital site. The Board plans to utilise the bulk of the cumulative surplus in 2007/08 to secure the achievement of targeted waiting times for patients with Availability Status Codes by December 2007.

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The Board inherited a recurring deficit of £28 m (subsequently revised to £30.5m) with the integration of the Clyde area of the former Argyll and Clyde Health Board. The Scottish Executive Health Department have agreed to provide transitional funding to enable the gap to be managed downwards during the three year period to 31 March 2010, on the basis that the Board develop a cost savings plan to eliminate Clyde's recurring deficit within that timescale. A savings plan for 2007\08 with a target saving of £11m (£7m recurring, £4m non-recurring) was approved by the Board in June, 2007.

Performance management

Performance management arrangements are being developed and refined across NHS Greater Glasgow and Clyde. Following the introduction of NHSGGC's performance framework in 2006/07 a comprehensive review has been carried out and an action plan of improvements agreed. These have been reported to the Performance Review Group and the Board. In particular, the review identified ways of improving exception reporting based on trend analysis and benchmarking. This will supplement the regular performance reporting arrangements based on targets and key measures. The improvements identified by the review will be rolled out in 2007/08 and subsequent years.

During the year we carried out a review of arrangements for the management of Community Health and Care Partnerships (CHCPs). Our review has only recently been reported in draft. Overall, we concluded that CHCPs are at an early stage of their development and the full potential benefits of this mode of integrated partnership working will take several years to materialise. There are significant challenges ahead not least developing further models of integrated services and working to improve health and tackle health inequalities. However, there are also some early positive developments including the establishment of sound governance structures and the planned co-location of services and support staff in 'one stop shop' facilities such as Craigton.

Governance

The Board continued to update and standardise its corporate governance arrangements to take account of significant changes within its organisational structure. In particular, the Board has continued to enhance its governance arrangements to support single system working. This has been progressed in parallel with the process of integrating the Clyde area of the former Argyll and Clyde Board.

In relation to clinical governance, the Board has made progress in bringing together the various strands of existing clinical governance arrangements that existed in the former divisional structure, including 'Clyde', through the development of an organisation-wide Clinical Governance Framework. The approval of the Clinical Governance Strategy and Framework by the Policy, Planning and Performance Group (PPPG) in November 2006, and subsequent ratification by the Board, is the key driver in taking forward progress in this area.

The Health Information and Technology Directorate (HI&T) also faces significant challenges as it integrates the Clyde area and moves towards single system working. At a strategic level, there is a need to establish a single strategic vision for HI&T services and underpin this with a supporting organisational structure, while at the operational level there is a need to harmonise and standardise HI&T procedures and working practices across the organisation. The appointment of a new Director of HI&T in November 2006 has been a positive development and is beginning to deliver improvements however it will take some considerable time to fully address the challenges and risks facing NHSGGC

During the year we carried out a review of the Board's Financial Position and Financial Management arrangements. Our report is currently in draft form and highlights a number of areas of good practice at NHS Greater Glasgow and Clyde in terms of its budget monitoring and reporting and its modelling of expenditure on prescribed drugs. The report also highlighted areas exposed to risk most notably the development and delivery of a robust cost savings plan for Clyde over the next three years

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Introduction

- This report summarises the findings from our 2006/07 audit of NHS Greater Glasgow and Clyde. The scope of the audit was set out in our Audit Risk Analysis & Plan, which was presented to the Audit Committee on 19 January 2007. This plan set out our views on the key business risks facing the Board and described the work we planned to carry out on financial statements, performance and governance.
- 2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
- We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, <u>www.auditscotland.gov.uk</u>.

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Organisational Risks

Introduction

4. In our audit plan, we identified six main areas of risk for NHS Greater Glasgow and Clyde. These were financial management, service sustainability, partnership working, information management, people management and governance. We also referred to longer term planning issues which would impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status.

Financial management

5. In our audit planning documentation, we commented that the key financial risk in 2006/07 for the Board was the integration of the Clyde area. From April 2006 the Board inherited a recurring deficit of £28.0 million from the integration, which increased to £30.5 million when the additional costs of securing compliance with waiting times targets on an ongoing basis are taken into account. The Scottish Executive Health Department have agreed to provide transitional funding to enable the gap to be managed downwards during the three year period to 31 March 2010, on the basis that the Board develop a cost savings plan to eliminate Clyde's recurring deficit within that timescale. A savings plan for 2007\08 with a target saving of £11m (£7m recurring, £4m non-recurring) was approved by the Board in June, 2007. The 3 year savings plan for the period to 2009\10 which is in development identifies potential recurring savings of £22m, leaving an outstanding recurring savings target of £8m to be met. Failure to develop a cost savings plan within the prescribed timescale could seriously affect the Board's financial position.

Refer risk area 1

 In addressing this area are we carried out a review of the Board's financial position and financial management arrangements. This area is further addressed in the Governance and Financial Statements sections of this report.

Service sustainability

7. Our audit plan also drew attention to the risks relating to the Board's ability to provide appropriate, safe, sustainable services in an environment of changing clinical demands and we commented on several factors impacting on the risks. In particular, we highlighted the Board's ability to afford the significant costs associated with its Acute Services Review and the added complication of integrating Clyde services into this review.

8. The Acute Services Review (ASR) is taking forward into implementation the acute strategy agreed with the Scottish Executive in 2002. The review proposes a modernisation and rationalisation of acute services centred on the Royal Infirmary and the Southern General and the completion of a new West of Scotland Cancer Centre on the Gartnavel Hospital site which opened in Spring, 2007. Additionally, two Ambulatory Care and Diagnosis (ACADs) facilities are being established on the Stobhill and Victoria sites. The investment in the ACADs alone amounts to £200m (to be undertaken on a PFI basis) and is one of the largest investments in new NHS facilities in Scotland and is amongst the largest of its kind anywhere in the UK. Construction is already underway on the ACADs and completion is expected in Spring 2009.

9. The developments planned on the Southern General site, in particular, represent the biggest hospital construction challenge ever faced by the NHS in Scotland and will result in the creation of a £725m campus on an existing hospital site. This new campus will include a new children's hospital and new adult hospital. There will be a significant challenge for the Board in continuing to deliver existing services as this large and complex project progresses over the next five to ten years. The implementation of the Acute Services Review will depend on the Board's ability to develop a financial framework which will contain the revenue costs within the overall parameters of affordability which will meet the objectives and requirements of the Board and of the Scottish Executive, and this is a significant risk for the Board

Refer risk area 2

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- 10. The integration of the Clyde area adds a further dimension to service redesign. Significant progress has been made with the review of Clyde services. In relation to South Clyde the Board has formally approved plans to retain both emergency and elective inpatient services and the Accident and Emergency service at the Inverclyde Royal Hospital (IRH) and Royal Alexandra Hospital (RAH).
- 11. The review of Clyde Services has been ongoing since May, 2006 and a number of proposals were submitted to the Board at its meeting on 26 June 2007. The review dealt with 4 service areas: Mental Health across the Clyde area; Integrated Care and Rehabilitation at the Vale of Leven Hospital; the Community Midwifery Units at Inverclyde Royal Hospital and the Vale of Leven Hospital; the Older People's Services in Renfrewshire. These changes will be subject to formal public consultation following the process of external, independent scrutiny which the Scottish Executive has introduced. The redesign of services in North Clyde, particularly at the Vale of Leven Hospital, is critical to ensuring that services continue to be provided in a way which both secures patient safety and is cost effective.

Refer risk area 3



Partnership working

- 12. In our audit plan, we highlighted that partnership working between the NHS and local authorities is increasingly playing a key role in delivering services within community based settings. This is being progressed through the vehicle of Community Health (and Care) Partnerships [CHCPs].
- 13. The Board established six Community Health and Care Partnerships (CHCPs) which involve joint management arrangements with Glasgow City Council (5 CHCPs) and East Renfrewshire Council to provide integrated healthcare and social services to local communities. These were only established on 1 April 2006 and are at the early stages of their development. As part of our programme of audit work in 2006/07 we carried out an overview of partnership working in relation to the five CHCPs in the Glasgow area. Our findings are summarised in the Performance Management section of this report. In the Board's area there are also four Community Health Partnerships (CHPs) where services are managed by NHSGG&C working with local authority partners in East Dunbartonshire, West Dunbartonshire, Inverclyde and Renfrewshire. The Board also is a minor partner in the South Lanarkshire and North Lanarkshire CHPs.

Information management

- 14. As part of our planning, we highlighted that Information Communications and Technology (ICT) was an area where single system working had yet to be fully developed. The Board had inherited a number of different ICT policies, practices and protocols that reflected the previous divisional arrangements in place, with the integration of Clyde from 1 April 2006 which had its own ICT policies, adding further complexity to this process.
- 15. In addressing this area we carried out a Computer Services Review of NHS Greater Glasgow's ICT arrangements. A summary of our findings is included in the Governance section of this report.

People management

16. Last year the SEHD had set a revised deadline for staff to be assimilated, under Agenda for Change (AFC), of 31 October 2006 and this was then subsequently revised to 31 March 2007. Within NHS Greater Glasgow and Clyde all relevant staff were due to be assimilated to their new job description and pay bands under Agenda for Change by 31 December 2006. However, due mainly to the time required by the Joint Evaluation Monitoring Group to process submitted job descriptions, only 29,000 staff out of a total of 43,000 subject to AfC had been assimilated by 31 March 2007. The accounts include an accrual of £73.3 m approximately for AfC and it is expected that all staff will be assimilated in 2007/08 albeit there may be some appeals against gradings.

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- 17. Our audit plan also highlighted the challenge of reducing sickness absence levels. In accordance with HDL (2005) 51 each NHS Board in Scotland was required to achieve target of no more than 4% sickness absence by 31 March 2008. Current absence rates within NHS Greater Glasgow and Clyde are 5.8% on average although in a number of specialities and partnerships rates varied significantly around this. The Board had set a target of achieving an absence rate of 4.7% by 31 March 2007 with a further reduction to 4% by 31 March 2008.
- 18. A draft attendance Management Policy was expected to be concluded at the end of May 2007 but is still subject to consultation with staff representatives. This policy addresses key areas such as use of return to work interviews and better use of the Occupational Health Service for those staff on long-term sickness. Even with such initiatives in place the requirement to reduce levels to 4% represents a significant challenge to the Board.

Refer risk area 4

- 19. There have been significant recent developments in the area of equal pay claims. Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principles that men and women should receive equal pay for work". This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. The National Health Service in Scotland has received a number of claims for backdated pay increases, arising from this requirement.
- 20. As at 31 March 2007 NHS bodies had received some 10,000 claims and these had been referred for the attention of the NHS Scotland Central Legal Office. Even taking account of work which has been undertaken in relation to Agenda for Change, it is still possible that these claims represent a current liability for NHS Boards. NHS Greater and Glasgow and Clyde as with other Boards has not been able to quantify the extent of its potential liability.
- 21. For 2006/07 we have accepted this position and NHS Greater Glasgow and Clyde have included an unquantifiable contingent liability note on this matter. Nevertheless we had hoped that further details to have been available to management including a reasonable estimate of the Board's liabilities determined in accordance with financial reporting standards. We would strongly encourage management to work with the SEHD and the Central Legal Office to resolve this matter as quickly as is practicable.

Refer risk area 5



Governance

- 22. The Board carried out major restructuring in 2005/06 to implement single system working within Greater Glasgow while the Clyde area of the former NHS Argyll and Clyde became part of an enlarged NHS Greater Glasgow and Clyde with effect from 1 April 2006. Also, from 1 April 2006 the Board was faced with the challenge of ensuring that governance structures were embedded within the new CHCPs. During 2006/07 the Board continued to enhance and harmonise its governance arrangements to support the new organisational structure.
- 23. As part of the statutory audit for 2006/07, the Board was required to participate in the National Fraud Initiative. Progress made in this area is summarised in the Governance section of this report.

Shared Services

- 24. During the period from December 2004 to January 2007, NHS Scotland has been developing proposals for a shared support model for financial services and payroll services across the sector. The original Outline Business Case promoted a 'hub and spoke' model to deliver financial and related services for all NHS Scotland bodies from two central hubs, with feeder activities at local Board level. A Draft Full Business Case (FBC) was then developed for this model and was made available for consultation at the end of 2006. In responding to the FBC, NHS Boards were supportive of the overall principle of shared services and of the particular proposal to establish a unified core service function. Nevertheless, Boards expressed reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings.
- 25. The Shared Support Services Project Board met in February 2007 to consider the responses received and concluded that it would not proceed with the Draft Full Business Case in its current form. As a result, the project has now been re-launched as the Shared Support Services Programme. This involves a two-tier approach to build confidence in the new ways of working using common processes and systems, eventually leading to a single services model based on a common finance system. The new approach comprises a Foundation level of involvement, with all Boards developing common ledger arrangements, as well as Pathfinder initiatives to develop the more advanced elements of the proposed development. Expressions of interest are being sought from Boards for Pathfinder status and a number of workshops have been held to develop potential service solutions. The Programme is currently establishing the costs and benefits (economic and qualitative) of these two tiers of work.
- 26. This is a highly significant development for the NHS in Scotland which has experienced a major recent change in emphasis. It is estimated that a revised business case for the final organisation of shared services in NHSS will be available during 2008.
- 27. The intention underlying the change of approach is to reduce the risk profile through a distributed programme of projects to be delivered by Boards in support of the common goal. Auditors will continue to monitor the development of these arrangements and the management of related risks.



Modernising Medical Careers

- 28. Modernising Medical Careers (MMC) is an initiative introduced to reform postgraduate medical training throughout the UK. It aims to provide a focussed training programme which will reduce the time taken for Specialty Trainees in hospital and general practice, to achieve CCT (Certificate of Completion of Training).
- 29. While MMC is still at a relatively early stage it is important to highlight that the process presents both short term and long term risks to the performance of the Board:
 - the biggest short term risk is the potentially adverse impact on service delivery resulting from the amount of time required by staff to complete the focussed training programme; and
 - in the longer term there is a potential financial impact for the Board as staff will now be able to complete Specialty Training more quickly than was previously the case.
- 30. The Board's Financial Plan for 2007/08 includes a general provision for MMC of £1m for each of 2007/08, 2008/09 and 2009/10. It also indicates the potential for additional costs within the range £4 million to £8 million building up over a 7 to 8 year period.

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Financial Statements

Our responsibilities

- 31. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - the regularity of the expenditure and receipts.
- 32. We also review the Statement on Internal Control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable
 Officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

33. We have given an unqualified opinion on the financial statements of Greater Glasgow and Clyde Health Board for 2006/7. The previous regularity qualification in respect of patient exemption charges has been lifted. This brings the Board into line with other NHS Boards. The system of controls covering patient exemption charges relies on self-certification by the patient and therefore has inherent weaknesses.

The Board's financial position

34. The Board is required to work within the resource limits and cash requirement set by the Scottish Executive Health Department. NHS Greater Glasgow and Clyde's performance against these targets is summarised in Table 2 below.

Table 22006/07 Financial Targets Performance £ '000

Financial Target	Target	Actual	Variance
Revenue Resource Limit	1,921,674	1,894,326	27,348
Capital Resource Limit	132,127	129,590	2,537
Cash Requirement	2,100,866	2,100,866	0

- 35. The Board has achieved a cumulative surplus of £27.3 million. As the Board carried forward a £12.7 million surplus from the previous year this means there was in an in-year surplus of £14.6 million. The Board had planned to carry forward £26.1 million. Attainment of the surplus has largely been achieved through non-recurring funding such as the sale of assets (principally Woodilee), resulting in a gain on disposal of £33.1 million. The Board intends predominantly to use the surplus to secure the achievement of targeted waiting times for patients with Availability Status Codes by December 2007.
- 36. Stripping out non-recurring funding allows us to reflect the underlying recurring deficit in NHS Greater Glasgow and Clyde for 2006/7, as illustrated below.

	£ Million	£ Million
Recurring income	2386.6	
Recurring expenditure	2416.6	
Underlying recurring surplus/(deficit)		(30.0)
Non-recurring income	47.5	
Non-recurring expenditure	45.3	
Balance of non-recurring		2.2
Difference		(27.8)
Other income sources		33.3
Non-recurring SEHD income/year-end support (Transitional funding)		21.8
Corporate savings programme		Note 1
Total other income		55.1
Financial surplus/(deficit)		27.3

Table 3 Funding Position 2006/07

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Note 1: The above out-turn includes savings achieved of £16.4 million (of which £13.4 million were recurring)

- 37. The underlying deficit of £30.5 million represents the recurring deficit inherited from the Clyde area at the point of dissolution of the former NHS Argyll and Clyde. Following extensive discussions with the SEHD a three year brokerage arrangement was agreed to enable a strategic approach to the redesign of services to deliver financial balance. In each financial year the Board is required to make substantial progress to reduce the deficit. The development of a cost savings plan for Clyde is crucial to managing the deficit downwards.
- 38. A final cost savings plan for 2007\08 was approved by the Board in June 2007. The plan identifies detailed recurring savings of £7.0 million and non-recurring savings of £4.0 million for the Clyde area in 2007/08, leaving a gap of £19 million. The plan also identifies total potential recurring savings of £22 million over the 3 year period to 2009/10, leaving an outstanding recurring savings target of £8 million to be met. The plan also identifies gaps in funding of £12 million and £4 million in 2008/09 and 2009/10 respectively. The Scottish Executive have indicated that they will provide transitional funding of £10m in 2007/08 leaving a shortfall of £9 million. A report to the Performance Review

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Group in January indicated that discussions were ongoing with the Scottish Executive to agree transitional funding for 2007/08 and beyond and the Recovery Plan was being further developed. The Board's Senior Officers are focussing on delivery of the full savings target by 2009/10, working throughout that period in conjunction with the Scottish Executive. Failure to achieve the savings target may seriously impact upon the Board's financial position.

- 39. Finance reports issued during the year to the Board identified that, within the overall "break even" position delivered, a number of pressures in non-pay costs, including surgical instruments and sundries and energy costs, had been counter-balanced through an underspend on salaries budgets. At present the SEHD allocates funds to NHS Boards on the basis of the Arbuthnott funding formula. The Arbuthnott methodology is currently being reviewed by the National Resource Allocation Committee (NRAC). Dependent on the outcome of this review there could be a significant negative impact on the Board's financial position
- 40. As referred to previously, financial balance has been achieved in part this year by managing the position using the sale of assets and slippage on projects as the Board is using non-recurring funding to help meet recurring expenditure in respect of the 'Clyde' area (the Greater Glasgow area is broadly in recurrent balance). We note that this is a consequence of returning the Clyde area to recurring financial balance by 2009/10. Thereafter, the Board should aim to be in recurring balance, and use non-recurring funding only for one-off items of expenditure.

The issues arising from the audit

- 41. We reported the following main issues to the Audit Committee on 26 June 2007:
 - Agenda for Change: We drew specific attention to certain aspects of the accounting treatment for the costs of the Agenda for Change programme for the period October 2004 to March 2007.
 - Disposal of Woodilee: We commented on the processes undertaken to review the arrangements for the sale of the former Woodilee hospital site which had resulted in gross sales proceeds of £54 million for the Board.
 - **Capital Grant to Kirkintilloch Initiative:** We referred to the accounting arrangements for the Board's provision of a capital grant of £6 million to the Kirkintilloch initiative.
 - **Financial Statements Presentation:** We commented on the options for disclosures contained within the remuneration report.
 - Equal pay claims: We drew attention to the issues surrounding claims for equal pay being received by all Health Boards and indicated that we would anticipate quantified disclosure at the earliest practicable date.

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- Waste Electronics and Electrical Equipment: We referred to the accounting requirements of the Waste Electronic and Electrical Equipment Regulations 2006 which came into force on 1 July 2007.
- Provisions for pensions an injury benefits: We referred to the calculation methods used to produce provisions for injury benefits.
- **Cash Flow Statement:** We commented on adjustments made to the cash flow statement to reflect the sale of the former Woodilee Hospital site.
- 42. All of the matters referred to above were fully resolved with officers and the Audit Committee prior to the conclusion of the audit.

Statement on internal control

- 43. The Statement on Internal Control (SIC) signed by the Board's accountable officer reflects the main findings from internal and external audit work and other significant control issues. The SIC highlighted a number of key issues:
 - Single system governance: Work is ongoing to enhance and harmonise governance arrangements to reflect the new organisational structure of NHS Greater Glasgow and Clyde including the integration of Clyde.
 - Patient Exemption Checking: NHS Scotland Counter Fraud Services (CFS) has produced extrapolations based on the results of their patient exemption checking work. These extrapolations are an attempt to estimate the level of Family Health Service income lost, due to patients that have fraudulently or erroneously claimed exemption from NHS charges. The extrapolations for 2006/07 indicate a potential fraud/error level of £9.7 million. The CFS have advised NHS Boards that a revised methodology was used for calculating extrapolations in 2006/07 and this has highlighted an issue with the validity of the calculations. Although there are issues in relation to the robustness and accuracy of these extrapolations, they potentially indicate that there remains a level of fraud/error worthy of note.
 - Risk management arrangements: Risk management arrangements in place during 2006/07 largely reflected the previous divisional structure and work is ongoing to harmonise these arrangements to reflect the transition to single system working and the assimilation of Clyde. In particular, NHS Greater Glasgow and Clyde has established a Risk Management Steering Group (RMSG) to develop a common set of standards and principles to underpin the risk management across the Board. Other important elements of this ongoing work include the approval of a Risk Register Policy by the RMSG in December 2006 and approval by the Audit Committee in March 2007. This latter meeting also approved a process for identifying and reporting corporate risk to the Audit Committee by linking with local risk registers and the performance management process.



PFI/PPP schemes

44. The Board has a number of operational schemes as summarised below:

Table 4 PFI/PP Schemes

Nature of the contract	Period of the contract	Capital value	Annual charge
72 Bed facility at Mearnskirk House	10 July 1997 to 9 July 2018.	The capital value of the contract is not quantifiable.	£1.128 million
Hospital Information System at Southern General Hospital.	5 March 2001 to 4 March 2009.	The capital value of the contract is not quantifiable.	£0.802 million
210 bed facility at Southern General Hospital.	1 April 2001 to 31 March 2029.	The estimated capital value of the asset used by the supplier is £8.25 million.	£3.023 million;
Hospital Information System at Yorkhill.	Dec.1997 to Dec.2007.	Estimated capital value of the asset used by the supplier is £2.0 million.	£0.983 million
Stobhill Local Forensic Unit.	March 2007 to March 2042.	Estimated capital value of the asset used by the supplier is £16.4 million.	£1.7 million
Gartnavel Royal Hospital-117 bed self standing Mental Illness hospital	October 2007 to October 2037.	Estimated capital value of the asset used by the supplier is £16.6million.	£1.9 million
Larkfield Care of the Elderly Facility at Inverclyde Royal Hospital	1 Nov.2000 to 31 January 2026.	Estimated capital value of the asset used by the supplier is £9.4 million.	£1.58 million
ACADs* at Stobhill and Victoria sites	2009 to 2039	Estimated capital cost is £178 million	£19.96 million

*ACAD – Ambulatory Care and Diagnostic Centre

Note – The annual charge is in respect of different baskets of services being provided within each contract.

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Performance Management

Introduction

45. This section covers our assessment of the way in which NHS Greater Glasgow and Clyde secures value for money in the use of its resources. This year we focused primarily on partnership working and the management arrangements for Community Health and Care Partnerships within Glasgow.

Community health and care partnerships

- 46. As part of our risk based assessment carried out during the initial planning stage of NHS Greater Glasgow and Clyde we identified partnership working, specifically through Community Health and Care Partnerships (CHCPs), as an area for review in 2006/07. CHCPs are new organisations that were set up in April 2006 to provide a focus on improving health and tackling inequalities in Glasgow's most deprived communities and to develop better integrated community health and social care services in the Board area. Our report focused on the five CHCPs established within the Glasgow area.
- 47. We have recently submitted our draft report to management on partnership working. Overall we concluded that CHCPs are at an embryonic stage in their development and early emphasis on embedding governance arrangements. It is our intention to monitor track progress in this area over the five years of our audit appointment. However, we have already noted several examples of good practice emerging including:
 - a CHCP Executive Group has been established to drive forward improvements in the CHCPs. The group is co-chaired by NHS Greater Glasgow and Clyde and Glasgow City Council Chief Executives and includes senior staff from both organisations;
 - the financial performance of CHCP services is reported on a quarterly basis to each CHCP committee, with monthly management accounts prepared for consolidation into the Scottish Executive Health Department Monitoring Return and also reported by social work to the Scrutiny Committee; and
 - the South West CHCP is planning an integrated facility at Craigton Road. This will bring together the delivery of healthcare and social services, and incorporate the CHCP HQ function, under one roof. The intention is that this facility will expand partnership working across social work and Health services with the potential to include other Council and partner agency services as well as community and voluntary organisations.

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- 48. CHCPs have a very challenging agenda which includes a significant programme of work being led by CHCP\CHP Directors and Directors within the Acute Services Division, to improve the primary\secondary care interface and to continue to implement the national and local strategies for the management of Long Term Conditions and other service areas. This will take a number of years to achieve. In the meantime there are a number of other areas where partnership working faces specific risks and these include:
 - Budget setting. CHCPs operate on the basis of aligned budgets between the NHS Board and the Council. For aligned budgets to operate effectively they must reflect CHCP priorities. Currently budgets are based on historical information generated by the Council and NHS Board. The Board and Glasgow City Council should work to further develop the initial steps taken last year to establish a joint process the setting of CHCP budgets for 2008\09.
 - Financial plans. CHCP budgets are compiled on an annual basis, consistent with the financial settlements for the NHS Board and the Council. Longer term financial plans are not currently compiled. Financial planning and service development in order to be effective need to take a longer term perspective than an annual cycle.
 - **ICT**. Business continuity plans for all CHCP systems need to be developed and tested to ensure they are effective in meeting the information needs of CHCPs.
 - Performance management. Performance measures are necessary to identify targeted improvements in the service provided by CHCPs. Targets are set jointly by the NHS Board and the Council. An Action Plan has been drawn up which will review the CHCPs performance management framework and will be developed during 2007/08.

Performance management

- 49. It is important that health boards have performance management systems in place which provide the information required to effectively manage and monitor the local health system. These systems should also capture and record information against key measures and indicators contained in the HEAT targets.
- 50. The performance management system within NHSGGC is being rolled out across the organisation. A comprehensive review of the performance framework has been carried out and an action plan of improvements agreed. These have been reported to the Performance Review Group and the Board. In particular the review identified ways of improving exception reporting based on trend analysis and benchmarking. This will supplement the regular performance reporting arrangements based on targets and key measures. The improvements identified by the review will be rolled out in 2007/08 and subsequent years. We will continue the monitor the Board's Progress in this area as part of our routine audit work.

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- 51. Local Development Plan targets are incorporated into the Board's performance management system. NHSGGC's planning and priorities guidance sets out clearly the relevant performance arrangements. This guidance is also linked to individual director's personal objectives to ensure individual accountability for performance.
- 52. As part of the 2007/08 audit we will be reviewing the progress that NHSGGC has made in strengthening their arrangements for securing Best Value since the baseline review work in 2005/06. Over the next year we will also be developing and refining our approach to the audit of bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, this being one of the key auditors' objectives under the new Code of Audit Practice approved by the Auditor General. In turn, this will inform our ongoing work to develop our approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.

National studies

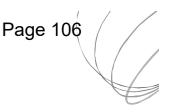
- 53. In 2006/7, Audit Scotland published three national studies:
 - Informed to Care: Managing IT to deliver information in the NHS in Scotland (November 2006);
 - Catering for Patients: A follow-up report (November 2006); and
 - Planning ward nursing: legacy or design? (January 2007).

In December 2006 an overview report was published: Overview of the financial performance of the NHS in Scotland, and two publications to assist NHS Boards and their members were published:

- Health and community care bulletin (May 2006), a summary of the key findings from the 2005/06 national studies; and
- How the NHS works: Governance in Community Health Partnerships; a self-assessment tool (May 2006).

Informed to Care: managing IT to deliver information in the NHS in Scotland

- 54. This national study sought to provide a high-level overview of the national picture at a time when new structures were being put in place across the NHS (unified boards and community health partnerships), new staff contracts are being implemented, there is increasing joint working with other parties, such a local authorities, and there is increasing opportunity for innovation in service delivery and data management with developments in Information Management and Technology (IM&T).
- 55. The report concluded that 'Delivering for Health', published by the SEHD, signalled a more corporate approach for IM&T, with a shift away from local autonomy for strategic planning and associated decision-making, and that the SEHD recognised the need to review governance and management



arrangements for IM&T throughout the NHS and was taking steps to improve them. Nevertheless there is still the need to develop an overarching information framework or strategy to inform the development of integrated IT solutions for the NHS in Scotland, taking account of all information needs and recent policy initiatives.

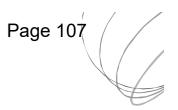
56. The report highlighted that the NHS does not know how much it spends on IM&T overall, but recognises that it falls short of the Wanless target of 3-4% of total health spend and should it seek to do so the SEHD will have to consider the future funding of IM&T developments. It was felt that greater stakeholder engagement is required to ensure all information needs are effectively addressed, and, finally, best practice in identifying, monitoring and reporting expected benefits from IM&T projects has to be adopted consistently across the service.

Catering for patients – a follow up report

- 57. This follow-up study assessed progress in implementing recommendations made in a baseline report, published November 2003, in the areas of nutrition, quality, patient satisfaction, costs and management of the catering service.
- 58. The key findings were that catering services are offering an improved level of choice, there are improvements in collating the views of patients, there are improvements in associated management information systems and Boards have reduced the level of wastage.
- 59. However more work has yet to be done in the areas of: nutritional care of patients, conducting patient satisfaction surveys, and closer management of the level of subsidy for non-patient catering services.

Planning ward nursing – legacy or design? – a follow up report

- 60. This follow-up study assessed progress made in implementing recommendations made in a baseline report, published 2002, in the areas of: workload and workforce planning, recruitment and retention, the use of bank and agency nurses, information on the quality of nursing care, and information to inform workforce planning and management of resources at ward level.
- 61. The key finding was that the SEHD has made progress in addressing the recommendations, thus laying the foundations for better ward nursing workload and workforce planning in the future. A wide range of recruitment and retention programmes have been implemented, and dependency on agency nurses (i.e. external to the NHS) has reduced, whilst use of bank nurses (i.e. internal to the NHS) has increased.
- 62. Areas for further improvement were identified in respect of: management information on workload and workforce; planning establishment to take account of annual leave, average sickness cover, study time, protected time for senior nursing staff, etc; closer management on the use of bank nurses and the development of quality indicators.



Governance

Introduction

- 63. This section sets out our main findings arising from our review of NHS Greater Glasgow and Clyde's governance arrangements as they relate to:
 - clinical governance;
 - corporate governance;
 - computer services review; and
 - the National Fraud Initiative.

Clinical governance

- 64. The Board has made progress in bringing together the various strands of existing clinical governance arrangements that existed in the former divisional structure, including 'Clyde', through the development of an organisation wide Clinical Governance Framework. In addition, NHSGGC has established a Clinical Governance Implementation Group (CGIG). The remit of the Group includes developing policy and establishing decisions on strategic priorities, and ensuring appropriate management of strategic objectives linked to Clinical Governance within the Local Implementation Plan. The approval of the Clinical Governance Strategy and Framework by the PPPG in November 2006 further strengthens clinical governance arrangements.
- 65. The performance of NHSGGC against the national Clinical Governance & Risk Management Standards was reviewed by NHS QIS in autumn 2006. The final report is not yet available but initial feedback indicates that performance across the Board had reached implementation levels for each of the national standards. In response to the NHS QiS review, each accountable lead officer is now required to integrate the national standards' requirements into their service specific improvement plans. We will review the Final NHS QiS report when available and this will inform our audit plans for future years.
- 66. Further, the Board's clinical governance arrangements were subject to review by internal audit in 2006/07 and overall they concluded that thee was evidence of action being taken to the address areas highlighted for improvement in the previous NHS QiS review visits.
- 67. Clinical governance arrangements are also embedded within the Community Health (and Care) Partnerships [CHCPs]. The Clinical Director, working through the Professional Executive Group (PEG) within each CHCP has overall responsibility for clinical governance. Some PEGS have delegated responsibility to a Clinical and Care Governance Committee, others are still in the process of establishing such a Committee. The Clinical Directors meet on a monthly basis to discuss common issues. These meetings are attended by the Board's Head of Clinical Governance thereby linking to clinical governance at a Board level.



Corporate governance

- 68. Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and the Board's financial position. We have made comment on the financial position at paragraphs 34 to 41.
- 69. The NHS Greater Glasgow and Clyde has been examining its governance arrangements continuously since it came together as one organisation in April 2006 and this has included an Annual Governance Review. This process has identified some differences in governance arrangements across the integrated organisation, such as the need to standardise a range of policies. A number of areas for further improvement were also noted including the need for a single Corporate Risk Register to be implemented. A unified Risk Management Strategy was approved by the Audit Committee at its meeting in March 2007.
- 70. As part of our governance work we carried out an early review of the Internal Audit service provided by Pricewaterhouse Coopers LLP. Overall, we concluded that the Internal Service operates in accordance with NHS Internal Audit Standards and has sound documentation and reporting procedures in place. Further, in terms of International Statement on Auditing 610 (Considering the work of Internal Auditors) we relied on the work of Internal Audit to give us assurance on those relating to systems of internal control.
- 71. Additionally we undertook a review of financial management and financial position and, a computer services review. The findings from this work are summarised below.

Financial position and financial management arrangements

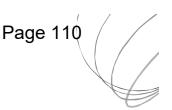
- 72. During the year we carried out a review of the Board's financial position and financial management arrangements. This review, which was carried out across all NHS bodies audited by directly by Audit Scotland staff, considered whether: financial planning is integrated with the overall strategic aims of the Board, the budget setting processes are robust; and there is adequate scrutiny of financial plans and budget monitoring undertaken across the Board.
- 73. To address those objectives we conducted interviews and reviewed documentation in respect of: planning and budgets, budget setting and budget monitoring, reporting and scrutiny, and, finally, forward planning.
- 74. Our report is currently in draft form and highlights a number of areas of good practice at NHS Greater Glasgow and Clyde in terms of its budget monitoring and reporting and its modelling of expenditure on prescribed drugs. The report also highlighted areas exposed to risk most notably the development and delivery of a robust cost savings plan for Clyde over the next three years.



Computer Services Review

- 75. Information Communication and Technology (ICT) was identified as an area of risk in our initial planning phase of the audit. In addressing these we carried out a high level review of the ICT environment using a Computer Services Review (CSR) Client Questionnaire.
- 76. In our report we recognised that significant organisational change is ongoing with the introduction of single system working. Also, there is continuing support for the provision of Acute Services, Partnerships and the programme for Improving Mental Health and Well-Being. Moreover, as well as changing the way that healthcare is provided, NHSGGC is in the process of combining previously autonomous organisations with distinct management and organisational structures into a single organisation.
- 77. On a strategic level the vision for future development of the Health Information & Technology (HI&T) and related services delivered by NHSGGC needs to be developed on an organisation-wide basis. The implementation of this vision requires development so that the management arrangements of former health areas and internal divisions are integrated into a single organisation so that HI&T functions as a single system. As can be expected when different organisations come together a range of different working practices and procedures are in place and so this presents an opportunity to review and consolidate the best policies, procedures and working practices.
- 78. The outcome of our review was an action plan agreed with management that outlines the main steps, lead officer responsibilities and timescales for implementing improvements. Given the size and complexity of the organisation a number of these improvements will take several years to achieve. More immediately, however, management have agreed to introduce a new Disaster Recovery and Business Continuity Strategy, strengthen asset registers and review standards and practices. These are significant areas of challenge for the organisation's Director of Health Information and Technology.

Refer risk area 6



National Fraud Initiative

- 79. In 2006/07 the Board took part in the National Fraud Initiative (NFI) in Scotland. The NFI is part of the statutory audit and was extended to cover the National Health Service in Scotland by HDL (2006) 44. The NFI is a biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies and on various financial systems to identify potential fraud, error or anomalies for investigation.
- 80. Under the NFI, Counter Fraud Services has strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the statutory audit of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies (£27M to 2005) and where, if fraud or overpayments are not identified, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 81. The NFI 2006/07 results (data matches) were made available to health bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the board's involvement in NFI 2006/07 during the course of the audit.
- 82. It is evident that the Board is committed to the NFI process the Chief Executive and the Director of Finance have expressed their support for the exercise and results and updates of NFI investigations are reported regularly to the audit committee and audit support groups.
- 83. There were over 4,000 data matches for NHS Greater Glasgow and Clyde. This, however, is not a list of frauds. An action plan was developed by the Board's Financial Governance and Audit Manager. Key officers from Human Resources and Payroll were also involved in developing the action plan and allocated specific responsibilities to review and investigate the matches.
- 84. No frauds have been identified as yet, however, some data matches are still being investigated. It is evident that the officers have taken a systematic and planned approach to investigating the matches. A unified fraud policy has been prepared and has been approved by the Audit Committee.

Looking Forward

85. NHS Greater Glasgow and Clyde faces significant challenges in 2007/8 which include:

- continuing to refine and develop a robust costs saving plan for Clyde that will deliver the necessary savings to allow that part of the Board's area to return to recurring balance in the medium term;
- complete and deliver the review of services in Clyde following independent scrutiny, public consultation and consideration by the Cabinet Secretary;
- achieve final approval for the Board's planned £725m investment in a new children's hospital and adult acute hospital at the Southern General site;
- continue to deliver, modernise and redesign services in line with the Acute Services Review including construction of the two ACADs at Stobhill and Victoria sites;
- . 2006/07 was the first full year of operation for CHCPs and their respective committees. The CHCPs will be required to demonstrate that they have improved services to patients and have contributed to improving the health of the community;
- the full achievement of targeted waiting times for patients with Availability Status Codes by December 2007;
- the need to maintain updated civil contingency plans and arrangements for managing major incidents and civil emergencies;
- the implementation of the European Working Time Directive and Modernising Medical Careers is continuing into 2007/08. The Board must manage the risks inherent in the new training and assessment arrangements on which MMC is founded; and
- the HI&T function within NHSGGC is facing significant challenges as it integrates the 'Clyde' area and moves towards single system working. There is the need to update and implement a strategic vision for the HI&T function and redesign the supporting organisational structure while harmonising HI&T procedures across the organisation.
- 86. The Board of NHS Greater Glasgow and Clyde recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	Failure to develop a cost savings plan to eliminate Clyde's recurring deficit within the prescribed timescale may seriously impact upon the Board's financial position.	Updated draft 3 year plan to be prepared for submission to the Performance Review Group	Douglas Griffin, Director of Finance	November 2007
2	The implementation of the Acute Services Review will depend on the revenue costs of the Review meeting the affordability criteria, and this is a significant risk for the Board.	Draft OBC to be completed, following discussion with SEHD, for submission to NHS Board and CIG	Tom Divers, Chief Executive / Robert Calderwood, Chief Operating Officer, Acute Services Division	October 2007
3	The redesign of services in North Clyde, particularly at the Vale of Leven Hospital, is critical to ensuring that services continue to be provided in a way which both secures patient safety and is cost effective	Proceed to consultation immediately following external independent scrutiny	Helen Byrne, Director of Acute Services Strategy Implementation and Planning	October 2007 (but dependent on a timescale for external scrutiny).
4	Failure to achieve the prescribed target for sickness absence will impact on the Board's financial performance.	Updated action plan to be submitted to Staff Governance Committee	lan Reid, Director of Human Resources	October 2007
5	NHS Greater and Glasgow and Clyde as with other Boards has not been able to quantify the extent of its liability for Equal pay claims. There is a risk that these liabilities will have a significant impact on the Board's financial position.	Board will monitor carefully the outcomes of the first tribunals scheduled to be heard early in 2008 and make an up-dated assessment at that point	lan Reid, Director of Human Resources	March 2008
6	The HI&T function within NHS Greater Glasgow and Clyde is facing significant challenges as it moves towards single system working. There is the need to update and implement a strategic vision for the HI&T function and redesign the supporting organisational structure.	Updated strategic plan, taking account of emerging national strategy to be submitted to Performance Review Group	Richard Copland, Director of Health Information & Technology	November 2007

NHS Greater Glasgow and Clyde

Report on the 2007/08 Audit



July 2008



NHS Greater Glasgow and Clyde

Report on the 2007/08 Audit

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Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by NHS Greater Glasgow and Clyde. We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

Financial position

The Board carried forward a £27.348 million surplus from 2006/07 and planned to fully utilise this to fund non-recurring expenditure commitments in 2007/08. During 2007/08 the Board achieved a cumulative surplus of £0.646 million, after utilising the surplus which was carried forward from 2006/07.

The Board's financial statements include significant provisions, particularly in respect of Agenda for Change payments, and do not reflect any potential liability for Equal Pay claims. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any under-estimate of costs in 2007/08 could have a significant impact in future years.

As outlined in the Board's Financial Plan there will be tighter financial settlements in 2008/09 and future years with an uplift of 3.15% in 2008/09 compared to 6% in previous years. This will have a significant impact on long term financial planning and the control of costs. The Board's Cost Savings Plan for 2008/09 has identified that approximately £42m of cash releasing savings will be required if the Board is to achieve financial breakeven in 2008/09 and in addition generate up to £11m of reserves to contribute towards funding the new Stobhill and Victoria facilities which will come onstream in 2009/10. The achievement of this plan would produce a surplus of £11m in 2008/09. The Clyde Savings Plan will have recovered between £15m and £16m by the end of 2008/09, leaving £10m to be achieved in 2009/10 to reach a position of financial balance within Clyde.

Financial statements

We have given an unqualified opinion on the financial statements of NHS Greater Glasgow and Clyde for 2007/08. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Performance

The Board has an action plan in place for the future development of its performance management framework and to ensure that information is available across the organisation on a consistent basis. The framework is being strengthened by the introduction of bi-annual local performance reviews. These are chaired by the Chief Executive and a panel of Directors who will review key areas of the local health system in conjunction with the local management team.



The Board is on track to achieve its HEAT (Health Improvement, Efficiency, Access and Treatment) targets and the Cabinet Secretary for Health and Wellbeing has publicly noted that the Board had met its waiting time targets particularly in relation to Accident and Emergency.

Best Value

In 2005/06 external auditors carried out a baseline review of Best Value arrangements across the health service including NHS Greater Glasgow and Clyde. A follow-up review was carried out in 2007/08 and we found that the Board had made progress in a number of areas. A number of key developments are currently underway to assist in embedding Best Value principles within NHS Greater Glasgow and Clyde. We also applied a Best Value, Use of Resources, pilot toolkit, covering Financial Management in 2007/08 and our work in this area is ongoing. We plan to submit our detailed report in August.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall, the corporate governance and control arrangements for NHS Greater Glasgow and Clyde operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems underpinning the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

In 2007/08, Internal Audit benchmarked the Board's arrangements for its Clinical Governance Committee against practices in other NHS boards. The review concluded that the Committee functions well, highlighting the presentation of annual clinical governance reports from Acute Services Directorates, Partnerships and other corporate clinical functions. It also noted the overarching clinical governance annual report for NHSGGC and the regular presentations on clinical governance arrangements within each of the directorates.

Looking forward

The final part of our report notes some key risk areas for NHS Greater Glasgow and Clyde going forward. There are significant challenges around future funding and delivering on HEAT targets, delivering efficiencies and managing a very extensive capital programme, all in a period of expected lower uplifts in allocations. National issues around Equal Pay claims and changes to accounting procedures will provide challenges in future years.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

Audit Scotland July 2008

Introduction

- This report summarises the findings from our 2007/08 audit of NHS Greater Glasgow and Clyde. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 30 January 2008. This plan set out our views on the key business risks facing the organisation and describe the work we planned to carry out on financial statements, performance and governance.
- 2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
- 3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of NHS Greater Glasgow and Clyde during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, <u>www.audit-scotland.gov.uk</u>.

Financial Position

4. In this section we summarise key outcomes from our audit of NHS Greater Glasgow and Clyde's financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

- 5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the management commentary with the financial statements
 - the regularity of the expenditure and receipts.
- 6. We also review the Statement on Internal Control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable
 Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

- 7. We have given an unqualified opinion on the financial statements of NHS Greater Glasgow and Clyde for 2007/08.
- 8. As agreed the unaudited accounts were provided to us on 12 May 2008 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS Greater Glasgow and Clyde staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 24 June as outlined in our Annual Audit Plan.



The Board's financial position

Outturn 2007/08

9. NHS Greater Glasgow and Clyde is required to work within the resource limits and cash requirement set by the Scottish Government. The Board's performance against these targets is shown in Table 1 below.

Table 1

2007/08 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource Limit	2014.37	2013.72	0.65
Capital Resource Limit	122.7	122.3	0.40
Cash Requirement	2126.00	2126.00	-

- 10. The Board has achieved a cumulative surplus of £0.646 million. The Board carried forward a £27.348 million surplus from the previous year which it utilised during 2007/08 to fund a number of non-recurring expenditure commitments, in particular increased expenditure on the achievement of waiting times targets.
- 11. Table 2 below, shows how the surplus of £0.646 million was achieved through a combination of recurring and non-recurring funding. Historically Boards have relied upon a measure of non recurring funding to achieve financial targets. However, with the tightening financial settlement in future years and the option of capital to revenue transfers no longer available to Boards, there is less scope for reliance on non recurring income to achieve financial balance as Boards seek to rationalise their cost base.

Table 2

Funding Position 2007/08

	£ Million	£ Million
Recurring income	2,555.00	
Recurring expenditure	(2590.40)	
Recurring savings	16.40	
Underlying recurring surplus/(deficit)		(19.00)
Non-recurring income	47.20	
Non-recurring expenditure	(31.60)	
Non recurring savings	4.00	
Non-recurring surplus/(deficit)		19.60
Financial surplus/(deficit)		0.60
Underlying recurring surplus/(deficit) as a percentage of recurring income		(0.74%)

2008/09 Budget

- There will be tighter financial settlements in 2008/09 and future years with an uplift of 3.15% in 2008/09 compared to around 6% in previous years. This will have a significant impact on long term financial planning and the control of non pay costs.
- 13. A general pay uplift of 2.75% was anticipated for most staff groups in 2008/09. The forecast overall growth in pay costs is now 3.6% after taking account of the funding of Agenda for Change and other pay increases for non-consultant medical staff. Pay costs account for approximately 50% of all Board expenditure and consequently this increase in pay costs presents a significant challenge to the Board's Financial Plan in 2008/09.
- 14. Another significant cost pressure for the Board is the rate of growth, before costs savings initiatives, in prescribing costs. These costs are increasing at a rate of 8% although the overall forecast growth in prescribing costs taking into account planned costs savings is estimated to be 5.25%.
- 15. The resultant recurring cost savings challenge faced by the Board in 2008/09 is £42.2m. In addition there is a requirement to contribute £4 million non recurrent costs savings to fund the residual funding gap for Clyde, giving an overall savings target of £46.2 million. Savings of £30.2 million have been identified leaving a gap of £16.0 million. Proposals to address this gap include a review of expenditure commitments and provisions, including earmarked funding, and planned workforce changes.

Risk area 1

Issues arising from the audit

- 16. As required by auditing standards we reported to the audit committee on 24 June 2008 the main issues arising from our audit of the financial statements. The key issues reported were as follows.
- 17. Family Health Services (FHS) There was initially a lack of substantive evidence and a poor audit trail between the amounts stated in the Trial Balance and the unaudited financial statements. This issue was resolved by the provision of further detailed information by management accounting services at later date. It is noted that the responsibility for recording and accounting for FHS expenditure will transfer to the Financial Services Department during 2008/09. This will allow a single system to be developed for the monitoring and accounting of FHS transactions.
- 18. Agenda for Change- NHS Greater Glasgow and Clyde accrued £48.2 million in respect of agenda for change payments at 31 March 2008. We received formal assurances from the Board, in a letter of representation, that the accrual, in their judgement, represents a prudent estimate of anticipated costs.

19. Contingent Liabilities - Equal Pay - NHS trusts in England have settled pay claims for female employees and similar claims have been received by boards in Scotland. As at 31 March 2008, NHS bodies had received some 12,000 claims and these had been referred for the attention of the Central Legal Office. It is possible that these claims represent a current liability for NHS Boards generally. An unquantified contingent liability was included in the notes to the Board's accounts for equal pay. Further details on this issue are included at paragraph 21 below.

Risk area 2

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20. **Pension Provision-** We drew specific attention to the accounting treatment for the pension provision in respect of early retirals. In previous years this provision was overstated. An adjustment was made to correct this in 2007/08 by applying a reduction of 50% or £3.2 million. Finance officers had contacted the Scottish Public Pensions Agency (SPPA) on several occasions to obtain the necessary information to enable them to accurately calculate the provision but this has not been received. In the absence of this information, finance officers used an alternative, sample based approach, to recalculate the provision. The absence of detailed information from the SPPA made it impossible to determine the accuracy of the current provision in the 2007/08 accounts and so we therefore received formal representations from management to provide assurances on the approach which they had used to calculate the provision within the accounts.

Equal Pay Claims

- 21. Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was taken forward by the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. In the UK the Equal Pay Act 1970 is seen as fulfilling Britain's obligations in relation to equal pay. The National Health Service in Scotland has received a number of claims for equal pay in which additional back pay is sought, arising from the requirement for equal pay. The NHS Central Legal Office (CLO) is instructed by the Management Steering Group of the NHSScotland and co-ordinates the legal response of NHSScotland to this issue.
- 22. For 2006/07, we accepted that no estimate of the potential liability for these claims could be identified because this was an emerging issue, still at an early stage and as a result a contingent liability was included in NHS Greater Glasgow and Clyde financial statements. We strongly encouraged NHS Greater Glasgow and Clyde's management, working with the Scottish Government Health Directorates and other NHS Boards, to resolve this matter in advance of compilation of the 2007/08 financial statements.

- Page 123
- 23. As at 31 March 2008, NHS bodies had received some 12,000 claims and these had been referred for attention to the Central Legal Office. It is possible that these claims represent a current liability for NHS boards generally. By the end of May 2008 there were 5298 grievances and 5551 employment tribunals registered against NHS Greater Glasgow and Clyde.
- 24. The CLO has co-ordinated the legal response to all claims and has attended Tribunal Hearings at which discussion about procedural matters has taken place. The CLO affirms that the cases in Scotland are at too early a stage to allow any assessment of financial risk to be included in the financial statements.
- 25. A number of issues contribute to this uncertainty:
 - certain recent applications incorporate a challenge to the Agenda for Change system, stating that it is, in itself, discriminatory and perpetuates discrimination. This allegation is made in terms of section 77 of the Sex Discrimination Act and seeks to bring all those who were signatories to the Agenda for Change Final Agreement into the proceedings, including Unison and GMB. This allegation of discrimination needs to be legally tested
 - claimants also seek to identify whether or not the Scottish Government or Health Boards is/are
 responsible for all the claimants' terms and conditions relating to pay. This is often referred to
 as the "single source issue". If this issue is actively pursued by the claimants, then it will
 require to be legally tested.
- 26. We note the CLO's current view of the stage the cases have reached but strongly encourage NHS Greater Glasgow and Clyde management, working with the Scottish Government Health Directorate and other NHS Boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.

Regularity

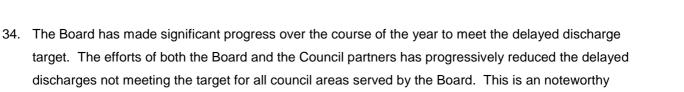
27. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Performance Management

- 28. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
- 29. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.
- 30. This section covers our assessment of the way in which NHS Greater Glasgow and Clyde secures value for money in the use of its resources. This year we focused primarily on monitoring the Board's Performance Management arrangements and examining the arrangements for Best Value through a follow-up to the base line study and reviewing the arrangements for Best Value Use of Resources, focusing on financial management.

Performance Management

- 31. The Board has an action plan in place for the future development of its performance management framework to ensure that information is available across the organisation on a consistent basis. The framework is being strengthened by the introduction of bi-annual local performance reviews with all Community Health (Care) Partnerships [CH(C)Ps], the Mental Health Partnership and the Acute Services Division. These are chaired by the Chief Executive and a panel of Directors who will review key areas of the local health system in conjunction with the local management team.
- 32. The Cabinet Secretary of Health and Wellbeing as part of the Annual Review of NHSGGC highlighted areas where specific action would be required to ensure that certain performance targets are achieved. These included waiting times for certain cancers, the four-hour Accident and Emergency target, outpatient waiting times and the elimination of Availability Status Codes (ASC) by 31 December 2007. An Annual Review action plan has been compiled which identifies the Board officer responsible for progressing actions agreed with the Cabinet Secretary.
- 33. The Board was successful in achieving a number of very challenging targets by the 31 December deadline. These included waiting time targets for inpatients; outpatients; chest pain and cardiac intervention; in addition to the abolition of Availability Status codes and the 4 hours accident and emergency waiting time. It was noted that some targets, including cancer waiting times, were only partially achieved.



35. Some HEAT waiting times targets will become more demanding from 2009 with the introduction of the 18 weeks referral to treatment standard. Although the standard only applies from 2011, interim performance milestones have been set to assist boards in achieving the target. The Board is making progress towards these interim targets.

example of joint working and across public sector organisations.

36. As stated in paragraph 10 above, the Board utilised its carry forward surplus to invest in additional treatments and clinical sessions to reduce the waiting times across the major performance categories as well as engaging in the redesign of processes and services to improve the patient pathway. This has had observable effects in improving clinical performance and service delivery throughout the year. However, the challenge for the Board will be to maintain the momentum and increase efficiency to meet the new Government targets in a more financially restrictive environment where the opportunities for additional investment will have to be balanced with the other strategic and operational objectives of the Board.

Risk Area 4

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Best Value developments

- 37. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.
- 38. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.
- 39. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.

40. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.

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- 41. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a number of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.
- 42. The first of these toolkits, which covers Financial Management, was piloted in NHS Greater Glasgow and Clyde during 2007/08. The review sought to establish the Board's position in relation to:
 - financial governance and leadership
 - financial and service planning
 - finance for decision-making
 - financial monitoring and control
 - financial reporting.
- 43. Our work in this area is ongoing, although we have established that the Board's arrangements in this area are soundly based. We plan to submit our detailed report in August, drawing upon examples of good practice across the NHS in Scotland.
- 44. In 2005/06 external auditors carried out a baseline review of Best Value arrangements across the health service including (at that time) NHS Greater Glasgow. The baseline review was built around the then Scottish Executive's nine best value principles commitment and leadership, accountability, responsiveness and consultation, joint working, sound governance, sound management of resources, use of review and option appraisal and equal opportunities arrangements.
- 45. In 2007/08, we reviewed the baseline information to ascertain what arrangements NHS Greater Glasgow and Clyde have put in place to take forward the best value agenda and demonstrate continuous improvement. We are presently collating information for this update and will report our findings shortly.

Efficiency

- 46. In 2007/08 the Board had a cost savings target of £16.4m as part of the Scottish Government Efficient Government – Efficiency Savings Initiative. The target was met during the year through a range of cost savings initiatives covering areas such as prescribing, procurement, service redesign schemes and improved management of staff. As identified in paragraph 15 above, the challenge for 2008/09 onwards will be significant for the Board.
- 47. Service redesign has contributed to the overall ability of the Board to derive savings and efficiencies from its activities. This affects a range of both clinical and support functions. For example the redesign of laundry services concentrated activities in a small number of more efficient sites and the centralised stores operated by NHS National Logistics Service, replaced the need for Boards to hold stocks of general consumable items.
- 48. E-procurement has been introduced throughout the organisation with most departments being able to order goods and services directly from the National Distribution Centre operated by NHS National Logistics. A major training programme was undertaken during the year to facilitate the change to working practices. Cost savings are expected to be derived from reduction in the cost of ordering and stock-holding and also from discounted prices on goods and services obtained through bulk purchase contracts with suppliers.
- 49. Moving forward, the Board continues to derive cost efficiencies through a programme of service reviews and budget monitoring. The cost savings plan includes projects designed to produce recurring and non recurring savings which are incorporated into the financial plan. A corporate approach is adopted for the identification of suitable cost reduction programmes and savings targets are devolved to operational budgets where appropriate.
- 50. There is a continuing challenge for the Board to identify additional efficiencies in the service within a tightening financial settlement. It is important that the Board has access to accurate cost base information required to inform investment choices and continues to encourage innovation and creativity in the future provision of services from all stakeholders both internal and external to the organisation. In the complexities of the financial planning process where internal savings are being generated to support service developments e.g. the Ambulatory Care Hospitals, as well as to meet efficiency targets, it is essential that sufficient attention to the recording and classification of financial savings is embedded in the main accounting functions.

National Studies

51. Audit Scotland published 4 national study reports relevant to NHS Greater Glasgow and Clyde and the key findings from these are summarised in the paragraphs which follow.



A Review of free personal and nursing care (FPNC)

- 52. This report evaluated the robustness of financial planning, monitoring and reporting arrangements for free personal and nursing care, examined the current costs and funding allocations for free personal and nursing care for councils and identified the financial impact on older people, the Scottish Government and councils.
- 53. The report recommended that the Scottish Government and councils should continue to work together as a matter of urgency to clarify current ambiguities with the policy and should agree a national eligibility framework which defines risks and priority levels to ensure transparency in access to care for older people.
- 54. The report also recommended that councils should work with local health partners to evaluate the longer-term consequences of reducing domestic home care services, such as cleaning, shopping and laundry services.

Managing Long Term Conditions

- 55. The study examined services for adults with long term considerations generally, focussing on two conditions in particular i.e. chronic obstructive pulmonary disease and epilepsy.
- 56. Some of the key recommendations were:
 - that the SGHD, NHS boards and local authorities should collect better information on activity, costs and quality of services for long term conditions to support the development of community services
 - the SGHD, NHS boards and local authorities should evaluate different ways of providing services to ensure cost effectiveness and share good practice
 - NHS boards should take a more strategic role to ensure better working between CH(C)Ps and the acute sector to support the development and resourcing of community services
 - The SGHD and NHS boards should agree targets to support the development of communitybased services
 - NHS boards and local authorities, through CH(C)Ps, should ensure comprehensive information is given to patients about their condition, and the health and social care services available, at the time of diagnosis.

Primary care out-of-hours services

57. This study reviewed changes to the delivery of primary care out-of-hours services. We looked at national and local planning for out of-hours care; how much it costs the NHS; and how the current delivery of out-of-hours services affects patients and GPs.

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- 58. The key messages are:
 - over 95 per cent of GP practices have chosen to opt out of providing 24-hour care to their patients, with responsibility passing to NHS boards. This has been a major challenge for NHS boards but they have managed to sustain services for patients. The opt-out offers an opportunity for NHS boards to change the way services are delivered and to improve patient care, although this will take time to be used to its full potential
 - most of the funding for new out-of-hours services comes from NHS boards' budgets. This has added to cost pressures for NHS boards, particularly in rural areas where they have had to meet a greater percentage of the costs. The cost to NHS boards in 2006/07 was approximately £67.93 million
 - the overall impact on patient care of GPs opting out of out of-hours services is not clear as it has been introduced alongside other changes. Due to the lack of national data available it is difficult to assess whether patients are benefiting, however, over 80 per cent of patients are satisfied with the service they received. GPs are positive about being able to opt out and 88 per cent of GPs are relieved to no longer have 24-hour responsibility for patients.

Overseas staff in the NHS-pre-employment checks

- 59. This study was undertaken as a consequence of the security incidents in London and Glasgow in June 2007 which allegedly involved staff working in the NHS, including the Royal Alexandra Hospital. Following these incidents the Cabinet Secretary for Health and Wellbeing asked for the Auditor General to carry out an examination of whether pre-employment screening of overseas staff working in the NHS in Scotland was in line with the relevant guidelines.
- 60. The Auditor General published his report in late November 2007 and the key messages from the study were:
 - the NHS in Scotland does not have an accurate picture of the number of overseas staff employed
 - boards reported that there were 1,161 overseas staff in NHS employment across Scotland at September 2007. However this is likely to be an underestimate as boards had difficulty identifying staff who were in the country with indefinite leave to remain. Of the overseas staff identified, boards estimated that 89 per cent of these were doctors or nurses

- in the five sample boards (including NHS Greater Glasgow and Clyde) where more detailed work on compliance with pre-employment checks for overseas staff was carried out, boards had similar procedures and there was evidence of high compliance with procedures in the sample of personnel records reviewed.
- 61. In December 2007 the Scottish Government produced guidance on the recruitment of staff, including the additional procedures that must be followed when recruiting overseas staff. This guidance sets out the minimum requirements for NHS employers and implementation of the guidance is a requirement of the Staff Governance standard.



Governance

Overview of arrangements

- 62. This section sets out our main findings arising from our review of NHS Greater Glasgow and Clyde governance arrangements. This year we reviewed:
 - key systems of internal control
 - internal audit
 - aspects of information and communications technology (ICT).
- 63. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 9-11). Our overall conclusion is that arrangements within NHS Greater Glasgow and Clyde are sound and have operated through 2007/08.

Corporate Plans

64. The Corporate Plan outlines how the Board is going to develop its key strategic objective to:

"deliver effective and high quality health services, to act to improve the health of our population and to do everything we can to reduce health inequalities."

- 65. The plan consists of seven corporate themes:
 - **Improve Resource Utilisation**: making better use of our financial, staff and other resources.
 - Shift the Balance of Care: delivering more care in and close to people's homes.
 - Focus Resources on Greatest Need: ensure that the more vulnerable sectors of our population have the greatest access to services and resources that meet their needs.
 - **Improve Access**: ensure service organisation, delivery and location enable easy access.
 - Modernise Services: provide our services in ways and in facilities which are as up to date as possible.
 - Improve Individual Health Status: change key factors and behaviours which impact on health.
 - Effective Organisation: be credible, well led and organised and meet our statutory duties.

- 66. There a number of key challenges and risks for the Board in delivering this plan. The main risk areas are:
 - Securing Financial Stability As has been noted elsewhere in this report, one of the significant challenges that the Board faces relates to its ability to fund a sustainable level of service and implement major service developments, in particular the implementation of its Acute Services Strategy and the rationalisation of services within the Clyde Division. This issue remains a significant challenge to the Board.
 - Working In Partnership The ability of the Board to work in partnership with local authorities, central government agencies and the voluntary / private sectors has been demonstrated in the various partnership structures established by the Board. For example: CH(C)P, Mental Health Partnership, Supporting People Partnerships etc. Partnership working will play an increasingly important role in proposed service developments and enabling the Board to demonstrate the shift in the balance of care and improving access to services.
 - Maintaining Robust Performance Reporting Frameworks The importance of having robust systems of relevant, accurate and understandable information has been recognised by the Board. Significant developments in the performance reporting framework have been demonstrated during the year with the review and redesign of performance data collation and reporting for each business segment of the Board. It is recognised that this work is on-going and we will continue to monitor progress in future years.
 - Managing Risk– The Board has put in place robust systems for the identification and management of risk with the adoption of a single corporate risk register, corporate risk management policies and the issuing of guidance for managers. These corporate risk arrangements are supported by local departmental risk registers and arrangements. The challenge for the Board will be embedding a risk aware culture within the organisation for the future management of existing and emerging risks in the medium to long term.
 - Management Capacity / Workforce Development With the current level of service redesign, investment in new and innovative services and organisational change required to address these corporate objectives, there is an inevitable increase on the demands of senior officers of the Board in terms of knowledge and skills to manage the individual service priorities. The Board will require to take account of this as these developments progress.
- 67. These risk areas are complex and comprise multiple issues which will require careful management to resolve. We have continued to monitor the Board's progress in each of these areas over the course of the year and the significant developments in these areas are reported in the following paragraphs.

Service Development

- 68. Our audit plan identified the Independent Scrutiny Review led by Professor McKay on the service delivery proposals for the Clyde Division and its possible implications for the delivery of the full Cost Saving Plan for the Clyde Area. The Panel's report was issued in December 2007. The report was supportive of the Board's proposals in many areas but highlighted a need for further consultation and consideration of alternative options on service delivery particularly the transfer of unscheduled medical admissions outwith the Vale of Leven hospital.
- 69. The Board responded to the Independent Scrutiny Review Panel's findings by initialising a range of consultations on its proposals as recommended in the report. At the present time the Board is still concluding the consultation process on some strands of the service delivery proposals. The full implications of this review process have still to be realised together with an agreed strategy for moving forward. Therefore risks around these elements of the cost savings plan will remain into future financial years.
- 70. Our audit plan drew attention to the risks relating to the Board's ability to provide appropriate, safe, sustainable services in an environment of changing clinical demands and we commented on several factors impacting on the risks. In particular, we highlighted the Board's ability to afford the significant costs associated with its Acute Services Review and the added complication of integrating Clyde services into this review. We identified a significant challenge in demonstrating to stakeholders that care is moving from an Acute setting into a primary care community based setting.
- 71. Progress has continued with the development of the Acute Services Review. During the year, the Beatson Oncology Hospital became operational. Work on the two Ambulatory Care Hospitals at the Victoria and Stobhill has been progressing well. It is expected that these projects will be operational ahead of schedule in 2009/10.
- 72. The Board approved an £842m business case for the development of a new children's hospital and a new adult acute hospital and other facilities, contributing to a wider healthcare community located on the Southern General site. This project will be funded using a public funding model. The Scottish Government approved the Outline Business Case on 22 April 2008.
- 73. Detailed financial plans have been prepared outlining the capital and revenue funding requirements over the coming 10 years to sustain the strategy. The financial strategy is dependent upon the receipt of specific capital funding from the SGHD in relation to the New Children's Hospital and new Adult Acute hospital in South Glasgow, capital receipts and internally generated cash-releasing savings. This will require the Board to build up a level of recurring surplus to fund future commitments as they become operational over the next 10 years. The financial plan contains a number of assumptions about the future financial settlements and economic factors, which are subjective and may not materialise. Ultimately, the financial plan remains at risk of not being affordable and is a significant challenge to the Board moving forward.

Systems of internal control

- 74. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2007/08 PricewaterhouseCoopers, the Board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness on the systems of internal control.
- 75. As part of our audit we reviewed the high level controls in a number of NHS Greater Glasgow and Clyde systems that impact on the financial statements. This audit work covered a number of areas including cash and bank, payroll, accounts payable, accounts receivable, fixed assets, general ledger, Family Health Services, stores and procurement. Our overall conclusion was that NHS Greater Glasgow and Clyde has adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.
- 76. In addition we placed formal reliance on aspects of internal audit's systems work in terms of International Standard on Auditing 610 (*Considering the Work of Internal* Audit) to avoid duplication of effort. This work provided us with additional assurances on the adequacy of the internal control environment within NHS Greater Glasgow and Clyde.

Statement on internal control

77. The Statement on Internal Control (SIC) provided by NHS Greater Glasgow and Clyde Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and sets out NHS Greater Glasgow and Clyde's approach to this. The SIC highlighted the steps taken to improve the Board's risk management processes during 2007/08 including the establishment of a corporate Risk Register. Further, it outlined new developments in information governance including the appointment of an Information Governance Manager.

Internal Audit

78. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2007/08 audit we assessed whether we could place reliance on NHS Greater Glasgow and Clyde internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in a number of areas during 2007/08, as we anticipated in our annual audit plan.

Computer Services Review follow-up

- 79. As part of the 2006/2007 audit we carried out a Computer Services Review (CSR) of the Health Information & Technology (HI&T) service provision within NHS Greater Glasgow and Clyde (NHSGGC). A follow-up audit was carried out and reported in 2007/08. Of 16 risks identified we found that 5 had been addressed, 10 partially addressed and 1 was outstanding. Where there has been slippage in implementing agreed actions we have agreed revised timescales for implementation.
- 80. We found that management have taken steps to strengthen controls in the following areas:
 - a Health Information and Technology Strategy has been defined in consultation with key stakeholders. It takes account of national direction on e-Health Developments and local priorities such as the development of electronic records systems in the new Ambulatory Care Hospitals (ACH);
 - Health Information and Technology and Information Governance steering groups have been established as part of the board's governance structure to oversee information technology developments. They have met twice since being formed.
 - skills available within the organisation have been matched to HI&T requirements. A new HI&T organisational structure has been developed and is in the process of being implemented.
 - 81. Certain risks remain to be addressed in relation to business continuity and disaster recovery planning and so we will continue to monitor these areas in future years.

ICT Preparedness for Ambulatory Care Hospitals

- 82. As part of our programme of work in 2007/08 we carried out a review of ICT preparedness for introducing a paper-light records management system in ACHs using portal technology. We also attended a demonstration on current portal developments to better understand this new technology.
- 83. Our fieldwork is complete and we will be issuing a draft report to management shortly. Our preliminary findings indicate that the move to delivering services under the new ACH model will increase dependency on the ICT infrastructure for front line clinical care. The one-stop shop approach will still be dependent upon the existing ICT systems currently used by staff and failure of any underlying system will affect the operational effectiveness of the ACH model.
- 84. These arrangements place a high level of dependency on the resilience arrangements and disaster recovery plans developed by the Board. However, the reliance on information technology will require front line staff to ensure their service continuity plans can support continued service delivery even when the clinical portal is not available.

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Review of key Information Communications Technology (ICT) installations

- 85. As part of our work on the review of key ICT installations we issued a questionnaire to Health Information and Technology (HI&T) management for completion. It covers such matters as security, continuity of service and performance monitoring. The completed questionnaire and supporting evidence will provide a focus for our review and we expect to share emerging findings with HI&T shortly. Our report will be made available to the Audit Committee in due course.
- 86. The restructuring of the Health Information and Technology department or function is nearly complete and this has contributed to more efficient single system working practices. The risks associated with this major organisational change have been recognised and managed. NHSGGC is progressing well in developing its information technology infrastructure. Business continuity and disaster recovery activity has not progressed visibly other than representation on the Civil Contingencies Committee. This area requires further attention to ensure that users can deliver their services continuously or, alternatively, that adequate resiliency is in place to ensure that services remain available.

Clinical governance

- 87. The Board continues to work with NHS Quality Improvement Scotland (NHS QIS) to support the implementation of the clinical governance and risk management standards to ensure that clinical governance principles are embedded in local practice. NHS QIS has recently carried out a review of asthma services for children and young people and clinical governance and risk management. The report is not yet available but the initial feedback has been positive.
- 88. The Board is currently developing a web-based single system database for gathering information on adverse events to facilitate analysis and monitoring. This system replaces six predecessors systems and will facilitate operational risk management processes.
- 89. In 2007/08 Internal Audit benchmarked the arrangements for its Clinical Governance Committee against practices in other NHS boards. The review concluded that the Committee functions well, highlighting the presentation of annual clinical governance reports from Acute Services Directorates, Partnerships and other corporate functions as well as the overarching clinical governance annual report for NHSGGC and also the regular presentations on the clinical governance arrangements in each of the directorates. The report did, however, comment on the balance between written and verbal information presented to Committee members.

People management

- 90. The process of transformational change within NHS Greater Glasgow and Clyde continued in 2007/08. The Board's Organisational Development Framework was put in place and this provides a system of planning and support for the effective implementation of the Board's corporate themes. The framework focuses on developing leadership and management capability and capacity, developing effective teams and developing individual performance and results.
- 91. The success of many local and national initiatives is dependent on staff capacity, capability and competency. NHSGGC needs access to accurate and reliable information for effective workforce planning. A variety of local systems are currently used to produce workforce information and this is not an efficient use of resources. NHSGGC plans to use the national SWISS system to provide a more efficient single system. The national SWISS system itself also faces its own challenges as it is being further developed.
- 92. As with other health boards in Scotland Greater Glasgow and Clyde faces a major challenge in achieving the sickness absence target of 4% by March 2009. The current sickness absence rate for the Board is 5.99% The Board is taking action to reduce sickness absence including the adoption of a harmonised Attendance Management Policy and the inclusion of attendance management as a key target for senior staff within their 2007/08 performance objectives.

Risk area 6

Partnership Working

- 93. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards.
- 94. The Board has undertaken significant work in partnership with local authorities in establishing Community Health Care Partnerships (CH(C)Ps) and Community Health Partnerships to provide care and public health services in a local setting to meet the needs of the local population.
- 95. Public Partnership forums have now been established in each CH(C)P area with relevant committees meeting during the year. Such mechanisms ensure that service users are involved in the service developments and links are established with other local governance structures, for example, community planning committees, to co-ordinate services which meet the needs of local areas.
- 96. Performance reporting at CH(C)P level is still a developing area. We have noted significant work at Board level during the year to develop a comprehensive performance reporting structure with key information and reports being refined to meet the needs of users at all levels. However at individual

CH(C)P level this information still needs to be developed to meet the specific needs of each CH(C)P. For example, some information on services is available only on a city-wide basis, where ideally this should be on a CH(C)P basis.

97. In 2006/07 we carried out a review of partnership working specifically in relation to CH(C)Ps. The review identified that CH(C)Ps were in the early stages of development and in future years we will continue to monitor progress in this area.

Prevention and detection of fraud and irregularities

98. NHS Greater Glasgow and Clyde has in place a number of measures to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and supporting policies and procedures. The Board has a formal programme of internal audit work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. The Board has also agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2007/08 these checks included verification against patient records, requesting patients to confirm treatment by letter, visits to practices and examination of patients.

NFI in Scotland

- 99. During 2007/08, we continued to monitor the Board's participation in the 2006/07 National Fraud Initiative (NFI). This exercise is undertaken as part of the audit of the participating bodies. NFI brings together data from health bodies, councils, police, fire and rescue boards and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.
- 100. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Health bodies did not identify a significant part of these savings, as they are principally responsible for payroll matches. However the inclusion of health bodies in the process was worthwhile in that it facilitated matches at other public sector bodies.. Health employees were affected by several payroll irregularities, including a significant payroll fraud involving working at one Board while on sick leave from another body. Health employees were also affected by more than 90 cases of Housing Benefit fraud or overpayment. Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.
- 101. In May 2008 Audit Scotland released its report *National Fraud Initiative in Scotland 2006/07*. A full copy of the report is available on Audit Scotland's website <u>www.audit-scotland.gov.uk</u>. The report highlighted a range of areas where prevention and detection of fraud had been enhanced.

- 102. The report also noted that while the majority of participating bodies performed their role satisfactorily, reported performance was not as good in the following areas:
 - about a quarter of participants could have planned better for NFI, demonstrated more commitment to the exercise or started work on their matches more promptly.
 - bodies should review their approach to selecting matches for investigation. Better use could have been made of the web based application.
- 103. We reported, in 2006/07, that NHS Greater Glasgow and Clyde established key contacts and nominated other contacts in personnel and payroll at an early stage and that following receipt of the data matches, an action plan was created for each type of match i.e. payroll to payroll within and between bodies, payroll to payroll pensions etc. Two cases of fraud have been identified in 2007/08 as a result of the NFI initiative and a further six cases have been referred to the procurator fiscal.
- 104. We continued to monitor the board's progress with NFI as part of the 2007/08 audit. I am pleased to record that I was able to report back to Audit Scotland in February 2008 that NHS Greater Glasgow and Clyde had made adequate progress to date in following up the NFI output and that the arrangements overall for NFI were adequate and that all necessary investigative work was completed within the required timescales.
- 105. Looking forward, Audit Scotland is working to widen the scope of the NFI in line with the rest of the UK. Public bodies will provide information again in October this year as part of their 2008/09 audits with the output expected in early 2009. We shall continue to monitor NHS Greater Glasgow and Clyde's progress.

Looking Forward

106. NHS Greater Glasgow and Clyde faces a number of challenges in 2008/09, which include:

Service redesign – There are significant developments planned for the delivery of future healthcare services by the Board. The most significant is the continuing work on the Acute Services review which will see the development of new hospital facilities in south Glasgow. This alone will present significant long term challenges in identifying and securing funding together with project management of a major capital build. The two Ambulatory Care Hospitals due to become operational in 2009/10 will require significant levels of investment to be identified from within current revenue allocation. This will present a recurring cost pressure on the Board's financial plan in future years.

In taking forward its service redesign proposals there is the potential for further independent reviews which the Board will require to take account of in finalising its plans. In addition there will be the ongoing challenge of ensuring that risks associated with Hospital Acquired Infections continue to be appropriately managed.

Community Health (Care) Partnerships have been one of the most significant service redesign features in recent years. NHS Greater Glasgow and Clyde and its partner local authorities have been innovative in designing a structure that encompasses a true partnership approach to local health and social care provision. The challenge for the Board will be to demonstrate that the current CH(C)P structure is delivering its objectives and is instrumental in shifting the balance of care from acute to primary care settings.

- Financial management There will be tighter financial settlements in 2008/09 and future years with uplifts of 3.15% compared to 6% in previous years. This will have a significant impact on long term financial planning and the control of non pay costs. The Board's savings targets for 2008/09 have increased from £33.2 million to £42.2 million as a result of increased pay and prescribing costs. Savings of £26.2 million have been identified and the challenge for the Board is to address the £16 million gap without affecting services.
- International Financial Reporting Standards (IFRS) As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.



- Scotland Performs The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how NHS Greater Glasgow and Clyde is addressing this developing area as part of the 2008/09 audit.
- Efficiency and future funding Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for NHS Greater Glasgow and Clyde is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- Equal Pay The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Greater Glasgow and Clyde as received over 5,000 of the 12,000 claims received nationally on this matter. Board management, working with the Scottish Government Health Directorates and other NHS Boards, will require to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.
- Data handling The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies' procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures.
 Following the publication of an interim report in April 2008, the Scottish Government published their final report and recommendations in June 2008. We will monitor NHS Greater Glasgow and Clyde's response to the review and action taken as part of our 2008/09 audit.
- Best Value The concept of Best Value is seen as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year. NHS Greater Glasgow and Clyde will wish to respond to this important initiative as it develops.



- National developments With the election of a new Scottish Government in 2007, there are a range of national developments coming into operation or being piloted, including the use of independent scrutiny arrangements for major planned service changes and the introduction of elected members on NHS Boards. NHS Greater Glasgow and Clyde will be required to respond to this developing agenda.
- 107. The Board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.

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Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	The Board faces a wide range of financial challenges and there is a risk that it may not be able to make its savings targets in 2008/09. The longer term financial plan remains at risk of not being affordable and is a significant challenge to the Board moving forward.	 (i) The Board will finalise a detailed cost savings plan for 2008/09 by September 2008, including £6m of further short term cost savings measures to secure the achievement of its RRL in 2008/09. During the period to February 2009, it will progressively develop its cost savings plan for 2009/10, aimed at releasing £40m of recurring cost savings in 2009/10this includes meeting a residual cost savings challenge of £10m in 2008/09, to build up the first 50% of the funding reserve required to fund 2 new ACHs in 2009/10. (ii) The Board will continue to update its 10 year financial plan to reflect changes in its financial assumptions where appropriate, enabling the affordability of its longer term plan to be kept under close review These processes will be managed through the Board's PPPG, with progress reported to PRG and to the NHS Board. 	Chief Executive Director of Finance	Sept 08 /Feb 09
2	NHS Greater Glasgow and Clyde as with other Boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the Board's financial position.	The Board has a significant number of equal pay claims and is working with the NHS Scotland Equal Pay Unit to take this issue forward. There are a number of employment tribunals due to take place in the latter part of this financial year which will inform the direction of travel in relation to Equal Pay within the NHS in Scotland.	Director of Human Resources	31 March 2009
3	The Board may fail to meet its target in respect of cancer waiting times.	Validated quarterly performance improved quarter on quarter during 2007 until quarter 4 (Q1 – 87.2%, Q2 – 89%, Q3 – 92% and Q4 – 91%). An action plan was put in place to improve performance with a number of tumour types, particularly GI, Head & Neck and Lung. Validated quarterly performance for Q1 2008 is 92.9%. We are seeking to sustain and improve on this performance for 2008 to achieve the 95% target.	Chief Operating Officer, (Acute Services Division)	31 Dec 2008

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E	1

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
4	The Board may be unable to identify sufficient funding to support the demands for new investment to meet the new HEAT targets.	The Board will identify priority areas for new investment within its annual financial planning process, and will seek to ensure that in setting its financial plan, appropriate level(s) of resources are earmarked to enable the achievement of key targets, including new HEAT targets. This process will be managed through the Board's PPPG, within progress reported to PRG and to the NHS Board.	Director of Finance	31 March 2009
5	Reliance on ICT systems which are not adequately supported may have a detrimental effect on front line clinical care in the new Ambulatory Care Hospitals.	Whilst the complete solution for the Ambulatory Care Hospitals has been developed/integrated for that use, a large proportion of systems that make up the ACH solution are currently in use across NHSGGC. The ACH infrastructure has been designed to provide a substantial degree of resilience/failover. It is intended that the solution will be implemented in a number of specialties prior to the opening of the ACH. A detailed plan for support and business continuity will be developed by the end of the calendar year.	Director of Health Information and Technology	31 March 2009
6	There is a significant risk that the Board will fail to meet the target of 4% for sickness absence by 31 March 2009.	The Board continues to work towards the 4% sickness absence target and progress continues to be made. Sickness absence reduction is a key objective for all Directors and managers and remains a corporate objective, against which a corporate action plan has been developed. The achievement of the target is clearly a challenge, but remains an area of significant management focus.	Director of Human Resources	31 March 2009

NHS Greater Glasgow and Clyde

Report on the 2008/09 Audit

July 2009







NHS Greater Glasgow and Clyde

Report on the 2008/09 Audit

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Key Messages

Introduction

In 2008/09 we looked at the key strategic and financial risks being faced by NHS Greater Glasgow and Clyde (NHSGGC). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of NHS Greater Glasgow and Clyde for 2008/09. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers. It should be noted however that, without qualifying the opinion, we have drawn attention to the current position on potential claims against the Board in respect of Equal Pay.

Financial position and use of resources

The Board carried forward a £1.395 million surplus from 2007/08 after taking account of prior year adjustments. As at 31 March 2009 the Board disclosed a cumulative surplus of £0.441 million.

The Board's financial statements include significant provisions, particularly in respect of pensions and Agenda for Change payments. Also, they do not reflect any potential liability for Equal Pay claims as there is a lack of information to enable quantification of the liability. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any under-estimate of costs in 2008/09 could have a significant impact in future years

£10 million of the costs savings achieved in 2008/09 were required to fund capital charges and energy costs on a non recurrent basis to achieve a break even position. For future years these recurring savings will be used to support the funding of the two new Ambulatory Care hospitals.

In the medium to long term the Board faces a number of challenges to maintaining its financial position. These include the requirement to meet the Government's savings targets, the cost pressures in respect of prescribing growth, capital charges, pay modernisation and utility costs, and the uncertainty over the level of uplifts. The Board has forecast a recurring deficit of £14.9 million in 2009/10. Non-recurring financial resources of £14.9 million have been identified to offset the deficit and achieve financial balance in the Board's 2009/10 financial plan.



Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall, the corporate governance and control arrangements for NHS Greater Glasgow and Clyde operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems underpinning the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

The Board continues to progress work in improving data collection and ensuring consistency and comparability between different areas within the Board. Bi-annual organisational performance reviews (OPRs) chaired by the Chief Executive and a panel of Directors review key areas of the local health system in conjunction with the local management team. This approach represents good practice.

The Board is currently on track to achieve its HEAT (Health Improvement, Efficiency, Access and Treatment) targets.

Looking forward

The final part of our report notes some key risk areas for NHS Greater Glasgow and Clyde going forward. There are significant challenges around future funding, implementation of the Acute Services Review and the achievement of savings targets. National issues around Equal Pay claims and changes to accounting procedures, in particular the implementation of Internal Financial Reporting Standards, will also provide challenges in future years.

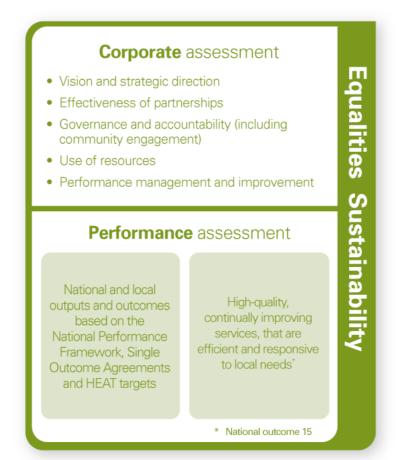
The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

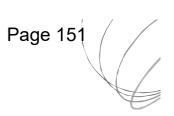
Audit Scotland July 2009

Introduction

- This report summarises the findings from our 2008/09 audit of NHS Greater Glasgow and Clyde. The scope of the audit was set out in our Audit Plan presented to the Audit Committee on 27 January 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
- 2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
- 3. Best value duties apply across the public sector and, in the health service, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of NHS Greater Glasgow and Clyde's arrangements.

Exhibit 1: Framework for a best value audit of a public body





- 4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
- 5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for NHS Greater Glasgow and Clyde, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
- 6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of NHS Greater Glasgow and Clyde during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.

Financial Statements

7. In this section we summarise key outcomes from our audit of NHS Greater Glasgow and Clyde's financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

- 8. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the management commentary with the financial statements
 - the regularity of the expenditure and receipts.
- 9. We also review the Statement on Internal Control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable
 Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

- 10. We have given an unqualified opinion on the financial statements of NHS Greater Glasgow and Clyde for 2008/09. It should be noted however that, without qualifying the opinion, we have drawn attention to the current position on potential claims against the Board in respect of equal pay.
- 11. As agreed, the unaudited accounts were provided to us on 11 May 2009 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS Greater Glasgow and Clyde staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 23 June 2009 as outlined in our Annual Audit Plan.

Issues arising from the audit

- 12. As required by auditing standards we reported to the audit committee on 23 June 2009 the main issues arising from our audit of the financial statements. The key issues reported were as follows.
- 13. Equal Pay Claims As at 31 March 2009, NHS bodies had received some 13,000 claims and these had been referred for the attention of the NHS Scotland Central Legal Office. Over 5,000 of these relate to NHS Greater Glasgow and Clyde. It is possible that these claims represent a current liability for NHS boards generally. As with a number of other NHS boards, an unquantified contingent liability has been included in NHSGGC's accounts for equal pay and the audit opinion draws attention to this position, without qualification. Further details on this issue are included at paragraphs 19 to 22 below.

Risk area 1

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- 14. Invoices received with no matching Goods Received Notes (GRNs) As at the balance sheet date NHSGGC had an amount for £21.467 million (£29.7 million in 2007/08) recorded in its invoice register for invoices received with no matching GRNs. An accrual for £8.17 million (£12.1 million in 2007/08) has been made in the financial statements based on the age of the invoices and officers' assessment of the potential liability. Finance officers continue to review the position to ensure that the balance of invoices without GRNs is managed downwards. The Board provided us with formal assurances, in a letter of representation, that the accrual, in their judgement, represents a prudent estimate of expenditure incurred.
- 15. Land transfer a local authority within the Board's area was in the process of formally transferring a piece of land to NHS Greater Glasgow and Clyde for the purpose of building a health centre. Due to the timing of the transaction the legal title to the land had not yet transferred as at 31 March 2009. Officers justified the accounting treatment of the land on the basis of FRS 5 (Reporting the substance of transactions) because the Board have a licence to occupy the site to enable them to commence construction of the new health centre. Finance officers at the Scottish Government Health Directorate concurred with this accounting treatment. In response to our queries, the Board provided us with formal assurance, in a letter of representation, that they had effective title to the land as at 31 March 2009.
- 16. Agenda for Change Provision (AfC) As at 31 March 2009, £8.96 million was included as an accrual and is designed to cover the cost of back pay of those staff not yet assimilated under AfC. A further £30.7 million has been accounted for as a provision and relates to the potential liability for staff appealing against AfC gradings. These figures include estimations based on NHS Greater Glasgow and Clyde's assumptions and refer to a range of staff posts and grades. The Board in response to our letter of representation confirmed that the provision, in their judgement, is a prudent estimate.

- 17. Pension provisions The current information received from the Scottish Public Pensions Agency (SPPA) is considered by the Board to be incomplete and consequently the provision is based on best estimates. We requested officials to review a number of cases where there appeared to be an overprovision. This resulted in a reduction of £460,000 although further review will be necessary when updated information is received from the SPPA. The Board provided us with formal assurances, in a letter of representation that the provision represents a reasonable estimate in respect of pensions.
- 18. Disposal of Woodilee Hospital –The Board's balance sheet includes a current debtor of £6.5 million and a long term debtor of £26 million in respect of the disposal of the Woodilee Hospital site. This sum is due to be paid over a period of years by a consortium of developers. We sought and obtained formal assurance from the Board that the income due from Woodilee would be fully recovered. The Board provided this in a letter of representation supported by relevant legal documentation.

Risk area 2

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Equal Pay Claims

- 19. Article 141 of the Treaty of Rome requires member states to ensure and maintain "the application of the principle that men and women should receive equal pay for equal work". This was taken forward by the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. In the UK the Equal Pay Act 1970 is seen as fulfilling Britain's obligations in relation to equal pay. The National Health Service in Scotland has received a number of claims for equal pay in which additional back pay is sought, arising from the requirement for equal pay. The NHS Central Legal Office (CLO) is instructed by the Management Steering Group of NHSScotland and coordinates the legal response of NHSScotland to this issue.
- 20. There have been some developments in this area over the past year. Some cases are being pursued that also comprise a challenge to the Agenda for Change pay evaluation system on the basis that it perpetuates discrimination. This has slowed the progress of claims. The challenge to Agenda for Change was recently heard at an Employment Tribunal in England. The challenge was unsuccessful and the Tribunal rejected the contention that the Agenda for Change job evaluation scheme was discriminatory. This ruling severely curtails the possibility of claims for any period after 1 October 2004. In relation to claims for the period prior to 1 October 2004, claimants will still have to establish that their jobs at that time were of equal value to the comparator jobs. The CLO have stated that claims currently submitted do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The NHS Scotland Central Legal Office and Equal Pay Unit are monitoring the progress of all equal pay claims in NHS Scotland as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.

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- 21. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2008/09. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2008/09 financial statements of affected NHS Boards. The position has also been disclosed in the Statement on Internal Control. It should be noted however that, given the potential significance of the issue, and without qualifying the opinion, we have drawn attention in the audit report to the current position on potential claims against the Board in respect of equal pay.
- 22. We continue to strongly encourage NHS Greater Glasgow and Clyde management, working with the Scottish Government Health Directorates, the CLO and other NHS Boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.

Regularity

23. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

- 24. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
- 25. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
 - 28 November 2008 opening 2008 IFRS based balance sheets were to be presented to auditors for dry-run audit
 - 28 February 2009 dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.

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- 26. The opening balance sheet and supporting documentation were submitted by NHS Greater Glasgow and Clyde to audit for review by the deadline date of 28 November 2008. The restated balance sheet and supporting working papers were comprehensive and the good standard of the supporting papers and the timely responses from NHS Greater Glasgow and Clyde staff allowed us to conclude our audit within the agreed timetable and submit our letter to management by 28 February 2009.
- 27. We made some recommendations for the delivery of the next stage of IFRS reporting the production of the shadow accounts for 2008/09 and will consider progress on these when we review the shadow accounts later in 2009. The issues highlighted for further consideration and review by management included:
 - The holiday pay accrual.
 - Embedded derivatives.
 - The classification of the Glasgow Royal Infirmary car park.



Use of Resources

- 28. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of NHS Greater Glasgow and Clyde's:
 - financial position
 - financial management
 - management of people
 - management and use of information and communications technology (ICT).

The Board's financial position

Outturn 2008/09

29. NHS Greater Glasgow and Clyde is required to work within the resource limits and cash requirement set by the Scottish Government. The Board's performance against these targets is shown in Table 1.

Table 1

2008/09 Financial Targets Performance £ million

Financial Target	Target	Actual	Variance
Revenue Resource Limit	2046.67	2046.23	0.44
Capital Resource Limit	123.84	123.76	0.08
Cash Requirement	2227.58	2227.58	-

30. The Board has achieved a cumulative surplus of £0.441 million. The Board carried forward an adjusted surplus of £1.395 million from 2007/08. Table 2 overleaf shows how the current year's surplus of £0.441 million was achieved through a combination of recurring and non-recurring funding. Historically, Boards have relied upon a measure of non recurring funding to achieve financial targets. However, with the tightening financial settlement in future years and the option of capital to revenue transfers no longer available to Boards, there is less scope for reliance on non recurring income to achieve financial balance as Boards seek to rationalise their cost base.

Table 2

Funding Position 2008/09

	£ Million	£ Million
Recurring income	2616.8	
Recurring expenditure	(2669.5)	
Recurring savings	50.7	
Underlying recurring surplus/(deficit)		(2.0)
Non-recurring income	52.6	
Non-recurring expenditure	54.2	
Non recurring savings	4.0	
Non-recurring surplus/(deficit)		2.4
Financial surplus/(deficit)		0.4
Underlying recurring surplus/(deficit) as a percentage of recurring income		(0.08%)

Financial sustainability and the 2009/10 budget

- 31. There were tighter financial settlements in 2008/09 with a general uplift of 3.15% compared to around 6% in previous years. This trend has continued in 2009/10 where again the uplift is set at 3.15%. This will have a significant impact on long term financial planning and the control of pay and non pay costs. In addition, in common with other public sector organisations, NHS boards have been set an efficiency savings target of 2% in 2009/10. Given the current economic situation and the impact of any review of national spending priorities, there is also risk that funding uplifts will be lower in future years.
- 32. The Board's financial statements include significant provisions, particularly in respect of pensions and Agenda for Change payments. Also they do not reflect any potential liability for Equal Pay claims as there is a lack of information to enable quantification of liability. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any under-estimate of costs in 2008/09 could have a significant effect in future years.
- 33. £10 million of the costs savings achieved in 2008/09 were required to fund capital charges and energy costs on a non recurrent basis to achieve a break even position. For future years these recurring savings will be used to support the funding of the two new Ambulatory Care hospitals.
- 34. A general pay uplift of 2.4% was anticipated in the Board's Financial Plan for most staff groups in 2009/10. The forecast overall growth in pay costs is now 2.75% after taking account of the funding of Agenda for Change and other pay increases for non-consultant medical staff. Pay costs account for approximately 60% of all Board expenditure and consequently this increase in pay costs presents a significant challenge to the Board's Financial Plan in 2009/10.

- 35. Another significant cost pressure for the Board is the rate of growth, before costs savings initiatives, in prescribing costs. These costs are increasing at a rate of 6% although the overall forecast growth in prescribing costs, taking into account planned costs savings, is estimated to be 4%. There is also uncertainty over the level of utility prices.
- 36. The Board achieved its cost savings target of £50.7 million in 2008/09. The recurring cost savings which the Board requires to generate in 2009/10 is £45.4 million. In addition there is a requirement to contribute £4 million of non recurrent costs savings to support the residual funding gap for the Clyde area, giving an overall savings target of £49.4 million.
- 37. In the medium to long term the Board faces a number of challenges to maintaining its financial position. These include the requirement to meet the Government's savings targets, the cost pressures in respect of prescribing growth, capital charges, pay increases and utility costs, and the uncertainty over the level of uplifts. The Board has forecast a recurring deficit of £14.9 million in 2009/10. Non-recurring financial resources of £14.9 million have been identified to offset the deficit and achieve financial balance in the Board's 2009/10 financial plan.

Risk area 3

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Financial management

- 38. Audit Scotland is developing a range of audit toolkits to cover key best value principles. These are being developed for use by auditors although they may also be used by NHS bodies themselves for self-assessment purposes. The first of the toolkits, which covered financial management, was piloted in NHS Greater Glasgow and Clyde during 2007/08.
- 39. Our detailed report was issued in October 2008 and drew upon examples of good practice across the NHS in Scotland. Our report concluded that the board's arrangements in this area are soundly based and in 2009/10 we plan to monitor the board's progress in developing an action plan to address the areas where performance could be improved.

People management

- 40. During 2008/09 we carried out a brief review of NHS Greater Glasgow and Clyde's process for the completion of its staff governance action plan. The work was carried out in response to a request from the Scottish Government to Audit Scotland for external auditors to review boards' procedures in relation to staff governance. In the case of NHS Greater Glasgow and Clyde, we reviewed the procedures followed for the production of the 2009/10 staff governance action plan. The main purpose of our review was to ensure that the staff governance action plan addresses issues arising from:
 - staff survey results
 - mandatory statistics on people management
 - any outstanding issues from the previous year's action plan.

- 41. Our review also included checking that the staff governance action plan includes clear timescales, identifies responsible officers and sets out measurable actions. Overall, we noted that NHS Greater Glasgow and Clyde has a robust process in place for the production of its staff governance action plan.
- 42. As with other health boards in Scotland NHS Greater Glasgow and Clyde faces a major challenge in achieving the sickness absence target of 4% from March 2009. As at the end of March 2009, the sickness absence rate for the Board was 4.93% which was slightly below the Scottish average. The Board is taking action to reduce sickness absence including the adoption of a harmonised Attendance Management Policy and the inclusion of attendance management as a key target for senior staff within their 2008/09 performance objectives.

Risk area 4

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43. The Board has a target to ensure that all employees covered by Agenda for Change had an agreed Knowledge and Skills Framework (KSF) personal development plan in place by March 2009. As at 31 March 2009 the Board reported that 99% of staff had KSF Performance Development Plans.

Management and use of ICT

- 44. As part of the 2008/09 audit we have reviewed several aspects of the Board's management and use of ICT:
 - information management
 - data handling
 - Picture Archiving and Communication System (PACS)
 - an ICT status report (jointly with internal audit).

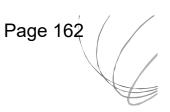
Information Management

- 45. A best value audit toolkit covering information management was piloted in NHS Greater Glasgow and Clyde during 2008/09. The review sought to establish the Board's position in relation to:
 - information governance and leadership
 - information for decision making
 - service delivery
 - compliance and control
 - knowledge management.

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- 46. Our review established that the Board's arrangements in this area are generally soundly based, with a number of areas of good practice. In particular, the Director of Health Information and Technology provides strong leadership and has been instrumental in progressing single system working. However, some areas have been identified where the Board's arrangements are at the 'basic' level under our categorisation. For example, in the use of service performance measurement and benchmarking. We plan to submit our detailed report in August, drawing upon examples of good practice across the NHS in Scotland.

Data Handling

- 47. High profile security incidents and personal losses from fraud have increased public awareness of the dangers of any lack of control of personal information. As part of the 2008/09 audit we carried out a review of the Board's arrangements for information and communication technology (ICT) data handling.
- 48. We found that management have taken steps to strengthen controls by implementing single system working and progressing with the development of a set of policies, for information governance and security, to apply throughout the Board. In addition, the Board has acted to strengthen the ICT control environment in the following areas:
 - introduced local procedures for the handling of sensitive information
 - created a security perimeter for its electronic network
 - provided security training to staff.
 - 49. Certain risks remain to be addressed, in particular the need to:
 - ensure that data is not inappropriately disclosed especially with the growing connectivity of information technology and communications systems
 - be extra vigilant to ensure that data is not exposed to unnecessary risk in a period of organisational change and the implementation of new technologies (e.g. portal technology at Ambulatory Care Hospitals)
 - continue to increase staff awareness and training in respect of information security and data handling procedures.



Picture Archiving and Communication System (PACS)

- 50. PACS is part of a nationally managed system although responsibility for the day to day operation of the system is shared between NHSGGC and the service provider i.e. Carestream Health. The user control element of the application security and database administration is, however, the responsibility of NHSGGC.
- 51. The main issues identified by this review are summarised below:
 - Due to the high user dependence on PACS, there is a need for robust business continuity and disaster recovery arrangements. Business continuity and disaster recovery arrangements have been tested during the national acceptance testing phase. However, there remain some aspects of business continuity plans, for those elements of the PACS solution which are delivered by service providers, which have yet to be fully established and tested.
 - PACS is a key service used within NHS Scotland and suitable provision for sustainability and security of the service will need to be made, and kept under review, both locally and nationally by engagement through the national User Group.
 - PACS involves central and local activities. Controls will need to be in place and monitored accordingly at both a local and a national level. For example, user management, database administration, the capture, storage and transfer of data are local activities whereas data sharing, volume growth and storage management are activities that are governed on a national basis.
 - As PACS has now become an integral part of service delivery, the medium to long term impact on the product life-cycle will need careful consideration including future product testing, upgrade and implementation or the eventual product replacement.
- 52. An action plan to address risks has been agreed with management. The actions are due to be implemented in the near future. Therefore, it has been agreed that we would follow-up progress in implementing agreed actions as part of our follow-up work.

ICT Status Report

53. Our audit plan for 2008/09 included a joint exercise with internal audit to follow-up and monitor progress made by management in implementing previously agreed audit actions. This work covers the following reports.

Table 3

ICT reports covered by joint internal/external audit exercise

External audit reports	Internal audit reports
Computer Services Review Follow-up (2007/08)	HI&T Restructuring Follow-up (2007/08)
Ambulatory Care Hospitals – Review of Portal Development Project (2007/08)	IT Programme and Project Management Follow-up (2007/08)
Review of Key ICT Installations/ Applications (2007/08)	IT Policies and Procedures Follow-up (2007/08)
Review of PACS Application/Installation (2008/09)	

54. This work is nearing completion and preliminary findings indicate that the Board has made good progress in implementing previously agreed audit recommendations. Full details of progress will be reported to the Audit Committee meeting scheduled for October 2009 where it is planned that the Director of Health and Information Technology will attend to discuss auditors' findings and answer any questions.

National Studies

Asset management in the NHS

- 55. This study examined how the NHS is strategically managing its assets to support effective service delivery. The study's objectives included assessing the extent to which the Scottish Government provides strategic direction to NHS bodies on asset management in general and the assurance that NHS estate is being used in the most economic and effective way. It also evaluated how well NHS bodies strategically manage all of their assets to ensure effective service delivery.
- 56. The report recommended that NHS bodies should:
 - develop strategies for each type of asset and then develop a corporate asset management strategy and plan, which links with their clinical strategies
 - ensure they assess estate condition, statutory compliance, functional stability and space utilisation on a regular basis
 - ensure all information on assets is held electronically.
 - review their performance management arrangements and, where required, develop performance measures and targets for assets.

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Managing the use of medicines in hospitals: follow-up review

- 57. This review followed up the key recommendations from Audit Scotland's 2005 report on '*Managing the use of medicines in hospitals.*' It also provided an overview of national developments since 2005. The report recommended that NHS boards should ensure that pharmacy workforce plans are based on an assessment of need, which considers the appropriate numbers, skill mix and other resources such as automation, to meet future needs for dispensary, clinical and other work.
- 58. The report also recommends that the Scottish Government and NHS boards should ensure that the Agenda for Change assimilation and review process for pharmacy staff is completed as a matter of urgency.
- 59. The above national reports are due to be considered in detail at a future meeting(s) of the Performance Review Group (PRG). This will involve relevant senior managers attending the PRG to outline the Board's progress in addressing recommendations locally and deal with any questions from the Group.

Governance and Accountability

- 60. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our main findings arising from our review of NHS Greater Glasgow and Clyde's arrangements.
- 61. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

- 62. This year we reviewed:
 - internal audit
 - key systems of internal control
 - aspects of ICT (refer paragraphs 44 to 54)
 - the arrangements for the compilation of the staff governance action plan (refer paragraphs 40 to 43)
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
- 63. Our overall conclusion is that arrangements within NHS Greater Glasgow and Clyde are sound and have operated through 2008/09.

Patient safety and clinical governance

- 64. The Board continues to work with NHS Quality Improvement Scotland (NHS QIS) to support the implementation of the clinical governance and risk management standards to ensure that clinical governance principles are embedded in local practice. New guidance has been issued and the Board's self -assessment of performance was submitted in July 2009 prior to the forthcoming NHSQIS visit in September 2009.
- 65. The Scottish Patient Safety Programme (SPSP) was launched in 2007 by the Scottish Patient Safety Alliance, which brings together the Scottish Government, NHSQIS and NHS boards. The main aim of the programme is to reduce mortality by 15% and adverse events by 30%. NHS Greater Glasgow and Clyde has made good progress on a phased basis in implementing the tools and techniques of the SPSP, rolling them out across many acute sites, although there are areas where the targeted milestones will not be met.

66. A key element of the SPSP is the need to improve the organisational culture and leadership on patient safety. Following an outbreak of Clostridium Difficile (C.Diff) at the Vale of Leven Hospital between December 2007 and June 2008 the Cabinet Secretary for Health and Wellbeing set up an Independent Review Panel (IRP) led by Professor Cairns Smith to review the situation. The IRP published their report in August 2008 and NHS Greater Glasgow and Clyde responded by implementing a C.Diff action plan. The Medical Director provided the PRG and Board with regular progress reports against the action plan during 2008/09 and progress reports are also submitted to the Cabinet Secretary. A follow-up visit by Professor Cairns Smith to NHSGGC in December 2008 confirmed that the Board had made good progress in implementing the action plan. Moreover, the Medical Director advised the Board at its meeting on 21 April that NHSGGC now had one of the lowest incidences of C.Diff in Scotland. The Cabinet Secretary also announced in April 2009 that there would be an independent public inquiry by the Scottish Government on the C.Diff outbreak at Vale of Leven.

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Partnership Working

- 67. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. The Board has undertaken significant work in partnership with local authorities in establishing Community Health Care Partnerships (CH(C)Ps) and Community Health Partnerships to provide care and public health services in a local setting to meet the needs of the local population.
- 68. Public Partnership Forums have now been established in each CH(C)P area with relevant committees meeting during the year. Such mechanisms ensure that service users are involved in the service developments and links are established with other local governance structures, for example, community planning committees, to co-ordinate services which meet the needs of local areas.
- 69. Glasgow City Council (GCC) internal audit department and PricewaterhouseCoopers (PwC), the internal audit provider for NHSGGC, have agreed an approach and programme of joint working to audit CH(C)Ps. In 2008/09 staff from GCC and PwC carried out a joint review to examine the specific arrangements for financial planning and budgetary control within two CHCPs. The review concluded that there were a number of issues to be resolved particularly in relation to the setting and management of budgets for CH(C)Ps particularly by the Council.
- 70. There have been a number of senior level contacts in recent months including the Chief Executives of both organisations to discuss and progress the issue of devolved budgets. The aim of this work is to fully devolve budgets to CH(C)Ps by April 2010 while at the same time establishing clear lines of accountability.

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- 71. In other areas partnership working is delivering new initiatives for delivering services in community settings. For example, the new modernised Pollock Civic Realm incorporating a refurbished health centre has been commended by the Cabinet Secretary for Health and Wellbeing.

Systems of internal control

- 72. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2008/09 PricewaterhouseCoopers, the Board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness of the systems of internal control.
- 73. As part of our audit we reviewed the high level controls in a number of NHS Greater Glasgow and Clyde systems that impact on the financial statements. This audit work covered a number of areas including cash and bank, payroll, accounts payable, accounts receivable, fixed assets, general ledger, Family Health Services, budgetary control, stores and procurement. Our overall conclusion was that NHS Greater Glasgow and Clyde has adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of improvements with management. This has been reported to the Audit Committee and will be followed-up at a future date to confirm that improvements have been made.
- 74. In addition we placed formal reliance on aspects of internal audit's systems work in terms of International Standard on Auditing 610 (*Considering the Work of Internal* Audit) to avoid duplication of effort. In particular we relied on internal audit's work on Family Health Services expenditure, bank reconciliations and aspects of payments to creditors. This work provided us with additional assurances on the adequacy of the internal control environment within NHS Greater Glasgow and Clyde.

Statement on internal control

- 75. The Statement on Internal Control (SIC) provided by NHS Greater Glasgow and Clyde's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and sets out NHS Greater Glasgow and Clyde's approach. The SIC highlighted the steps taken to improve the Board's risk management processes during 2008/09.
- 76. The SIC also drew attention to the growing importance of the information governance agenda and actions being taken locally to address this. In particular, the Board has appointed an Information Governance Manager supported by a Senior Information Risk Officer to oversee the implementation of new governance arrangements across NHSGGC.

Internal Audit

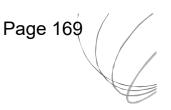
77. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on NHS Greater Glasgow and Clyde's internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in a number of areas during 2008/09, as we anticipated in our annual audit plan.

Prevention and detection of fraud and irregularities

78. NHS Greater Glasgow and Clyde has in place a number of measures to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and supporting policies and procedures. The Board has a formal programme of internal audit work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. Any weaknesses detected in the control systems, which could lead to fraud, would be reported to management. The Board has also agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2008/09 these checks included verification against patient records, requesting patients to confirm treatment by letter, visits to practices and examination of patients.

NFI in Scotland

- 79. In 2008/09 NHS Greater Glasgow and Clyde took part in the National Fraud Initiative (NFI) in Scotland. The SGHD and NHS Counter Fraud Services have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies but, if fraud or overpayments are not identified, assurances may be taken from internal arrangements for preventing and detecting fraud.
- 80. The NFI 2008/09 results (data matches) were made available to health bodies on 11 February 2009 via a secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the board's involvement in NFI 2008/09 during the course of the audit.



81. It is evident that the Board is committed to the NFI process – the Chief Executive and the Director of Finance have expressed their support for the exercise and results and updates of NFI investigations are reported regularly to the audit committee and audit support groups.

National Studies – Review of the new General Medical Services contract

- 82. This report considered how the new General Medical Services (GMS) contract, which is UK wide, was implemented in Scotland. The review focused upon the approach taken by the Scottish Government and NHS Boards to plan and implement the contract, the cost and effect of the contract on patients and GPs and the wider NHS arrangements for monitoring and managing the contract.
- 83. The report recommended that the Scottish Government and NHS boards should:
 - monitor the investment by NHS boards in enhanced services to make sure that they achieve value for money as well as meeting local needs
 - collect comprehensive data on local GP and GP practice staff numbers to support workforce planning at a national and local level.
- 84. The report was considered in detail at the Performance Review Group's meeting on 18 November which was attended by the Head of Primary Care Support who provided the Group with information on actions being taken locally to address issues highlighted in the Audit Scotland Report.

Performance

- 85. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
 - setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes for citizens.
- 86. In this section we comment on:
 - the Board's corporate plan and risks to its achievement
 - performance against targets
 - performance management arrangements
 - efficiency.

Vision and strategic direction

87. The Corporate Plan outlines how the Board is going to develop its key strategic objective to

"deliver effective and high quality health services, to act to improve the health of our population and to do everything we can to reduce health inequalities."

- 88. The plan consists of seven corporate themes:
 - Improve Resource Utilisation: making better use of our financial, staff and other resources.
 - Shift the Balance of Care: delivering more care in and close to people's homes.
 - Focus Resources on Greatest Need: ensure that the more vulnerable sectors of our population have the greatest access to services and resources that meet their needs.
 - Improve Access: ensure service organisation, delivery and location enable easy access.
 - Modernise Services: provide our services in ways and in facilities which are as up to date as possible.
 - Improve Individual Health Status: change key factors and behaviours which impact on health.
 - Effective Organisation: be credible, well led and organised and meet our statutory duties.

89. Corporate quarterly performances reports are prepared that are structured around the seven key corporate themes. These include a commentary on performance against each theme while a traffic light system is also used for performance targets and measure. The reports are submitted to NHSGGC's Performance Review Group for review and scrutiny. Work is ongoing to improve the consistency and comparability of the information produced across the organisation.

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Managing risk

- 90. There are a number of key challenges and risks for the Board in delivering its plan. The Board has put in place robust systems for the identification and management of risk with the adoption of a single corporate risk register, corporate risk management policies and the issuing of guidance for managers. These corporate risk arrangements are supported by local departmental risk registers and arrangements.
- 91. The main risk areas are:
 - Securing Financial Stability A key challenge for the Board is maintaining financial sustainability in a period of reducing funding levels and increasing pressure to achieve efficiency savings. There are also cost pressures due to increases in prescribing costs and capital charges.
 - Service Redesign and Sustainability As has been noted elsewhere in this report, one of the significant challenges that the Board faces relates to its ability to fund a sustainable level of service and implement major service developments, in particular the implementation of its Acute Services Strategy and other service strategies within the Clyde Division.
 - Working In Partnership The ability of the Board to work in partnership with local authorities, central government agencies and the voluntary / private sectors has been demonstrated in the various partnership structures established by the Board. For example: CH(C)P, Mental Health Partnership, Supporting People Partnerships etc. Partnership working will play an increasingly important role in proposed service developments and enabling the Board to demonstrate the shift in the balance of care and improving access to services.
 - Maintaining Robust Performance Reporting Frameworks The importance of having robust systems of relevant, accurate and understandable information has been recognised by the Board. Significant developments in the performance reporting framework have been implemented during the year although it is recognised that this work is on-going and we will continue to monitor progress in future years. There is also the challenge of working in partnership across NHS Scotland, with Community Planning Partners and with the Scottish Government to embed an outcome-based approach to identifying key priority areas, as described by the HEAT targets, for action in 2009/10.

Management Capacity / Workforce Development – With the current level of service redesign, investment in new and innovative services and organisational change it is essential that the importance of workforce planning is given high priority. There is also an inevitable increase on the demands of senior officers of the Board in terms of knowledge and skills to manage the individual service priorities. The Board will require to take account of this as these developments progress.

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92. Each of these areas is complex and comprises multiple issues which will require careful management to resolve. We have continued to monitor the Board's progress in each of these areas over the course of the year and have commented on this within the report.

Service Development

- 93. NHS Greater Glasgow and Clyde is committed, through the Acute Services Review (ASR), to developing a sustainable healthcare service to serve local communities and address the specific issues of health inequality and accessibility.
- 94. The ASR is fundamental to service redesign and modernisation within NHS Greater Glasgow and Clyde. The ASR is designed around a number of key developments which will see the rationalisation of acute services across the city; the construction of two new Ambulatory Care Hospitals (ACHs) which opened in early 2009/10 to provide planned admissions treatment and the provision of cancer services at the new purpose built Beatson Oncology Centre, which opened at Gartnavel Hospital in 2008/09.
- 95. The next stage of implementation is crucial to the success of the ASR. The proposed re-development at the Southern General hospital site is pivotal and will represent an investment of £842 million. The new facilities will include a specialist adult acute hospital, a children's hospital and laboratory facilities. The Scottish Government approved the Outline Business Case for the development of the adult and children's hospitals in April 2008. The Full Business Case is expected to be completed by summer 2010 with construction due to start in autumn 2010. The Board has established an Acute Services Project Board and separate governance framework to oversee the management of this development. The development is currently at the Invitation to Participate in Dialogue (ITPD) stage and three companies have been invited to participate. In accordance with good practice, a peer review of the documentation and the competitive dialogue process with the bidders has been undertaken. The ITPD process will be completed by 17July 2009. The bidders will submit their tender response on 11 September 2009 followed by a six week evaluation period and the evaluation panel will submit their recommendations to the Performance Review Group on 3 November. The recommendations will cover:
 - the laboratories full business case
 - the detailed design development for the new hospitals
 - the contract agreement to build the new hospitals.

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- 96. The assumptions in the financial plan underpinning the public funded procurement model for the development of the Southern General site includes anticipated capital receipts from the sale of property of £135 million (16% of total cost). In the current economic climate the achievement of this level of property sales could be challenging. We note that the Board is sighted on this and recognises the challenge it faces to ensure that the capital plan continues to be affordable.
- 97. Following the outcome of the Independent Scrutiny Panel chaired by Professor Mackay, which looked at the options for consultation on a range of services provided in the area, the Board, after consultation, approved a package of proposals which it said would guarantee the Vale of Leven Hospital a safe and secure future. These proposals were based on a new consultant-led model and included the continuation and expansion of planned outpatient, daycase and diagnostic services. The proposals also included provision for a new medical centre. The Board's proposals were approved by the Cabinet Secretary on 16 July 2009.

Performance Overview

- 98. The Board receives regular reports on progress towards achieving waiting times and other access targets set by the Scottish Government (commonly known as HEAT targets). The Board was successful in achieving a number of very challenging targets by the end of March 2009 including those for inpatients, outpatients, chest pain, diagnostics, cardiac intervention and the 4 hour waiting time for accident & emergency cases. Some targets, including cancer waiting times in relation to lung and colorectal, were not fully achieved.
- 99. Waiting times have been falling over recent years as the Board has achieved successive Government targets. The current Government target is that by December 2011 the total maximum journey will be 18 weeks from referral to treatment. The Board has already achieved interim milestones of 15 weeks maximum wait for admission for inpatient and day case treatment and 15 weeks for the first out patient appointment. The next milestone was to reach 12 weeks maximum wait for admission for inpatient and daycase treatment and 6 weeks for diagnostic tests and this was achieved by March 2009.
- 100. The Board has made significant progress over the course of the year to meet the delayed discharge target. The efforts of both the Board and Council partners has progressively reduced the delayed discharges not meeting the target for all council areas served by the Board and at April 2009 there were no patients waiting over six weeks for discharge. This is a good example of joint working across public sector organisations to improve performance.
- 101. There is now an expectation that all public sector bodies, including the NHS, should be able to demonstrate how their activities are aligned with the Government's over-arching purpose through the National Performance Framework (2008). This introduced Single Outcome Agreements (SOAs) for

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local government bodies in 2008/09. In 2009/10 this will be extended to the health sector through the mechanism of Community Planning Partnerships (CPPs). As a result, NHS boards will require to engage with local authorities, and other public bodies, to agree the priority outcomes and related indicators.

102. NHSGGC is working closely with its partners in the public sector to develop local outcome agreements and embed an outcomes-based approach in its Local Delivery Plan. Currently, NHSGGC is working through CPPs with six local authorities - Glasgow City, East Renfrewshire, Renfrewshire, East Dunbartonshire, West Dunbartonshire and Inverclyde - to develop Single Outcome Agreements.

Performance Management

- 103. NHS Greater Glasgow and Clyde has a sound performance management framework in place for monitoring and reporting on performance including
 - Organisational Performance Reviews (OPRs) these reviews are carried out on a bi-annual basis and hold management to account for their performance. They are chaired by the Chief Executive and cover all aspects of the Board's activities.
 - Corporate Performance Reports performance is reported to the Board's Performance Review Group on a whole range of targets grouped under each of the seven key corporate themes.
 - Waiting times and access targets the Chief Operating Officer of the Acute Services
 Division reports on waiting times and access targets at each meeting of the Board.
 - Balanced scorecards these are used by the Acute Services Division for each of its nine directorates. They comprise relevant HEAT and local targets such as bed occupancy and length of stay in hospitals.
- 104. Performance reporting at CH(C)P level is still a developing area. A joint health and social care report is prepared for all five CH(C)Ps within the Glasgow area. This details the performance of all CH(C)Ps alongside that of Glasgow City as a whole. These are used to highlight good performance, areas of concern and areas of variable performance.
- 105. The Annual Review in August 2008, chaired by the Cabinet Secretary for Health and Wellbeing, highlighted areas where specific action would be required to ensure that particular HEAT targets are achieved. Significant areas where action was required included redesign of children's services, finalisation of the Board's Primary Care Strategy, maintaining progress towards the 18 week referral to treatment target, the 62 day target for all cancer services and proposals for the Vale of Leven Hospital. An Annual Review action plan has been compiled and progress on this is reported to the Performance Review Group.

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- 106. One of the major challenges facing all boards in Scotland is tackling health inequalities. NHSGGC Board recognises this challenge and has incorporated actions within service plans and performance reports to assess progress in this area. These actions include:
 - promoting the health of new mothers through encouraging breast feeding of infants
 - helping people, including new mothers, to stop smoking through the provision of smoking cessation programmes
 - providing education and support for vulnerable and needy families through the work of health visitors and other health professionals
 - focusing on the needs of young people and families with young children.
- 107. Partnership working and Single Outcome Agreements will play an important role in assessing whether health inequalities are being addressed and improvements achieved over time.

Efficiency

- 108. In June 2004 the Scottish Executive launched the Efficient Government Initiative. The initiative aspired to achieve £1.5 billion of efficiency savings by 2007/08 and reported efficiency savings of £1.7 billion. In November 2007 the Scottish Government announced the Efficient Government Programme 2008/09 2010/11, setting set out its target to deliver cash-releasing efficiency savings amounting to £1.6 billion in 2010/11.
- 109. To achieve this level of savings the Scottish Government set portfolios a target of two per cent cashreleasing savings – producing the same outputs with fewer inputs – for each of the three financial years. Public bodies will therefore need to be able to deliver year on year efficiency savings and contribute to the achievement of these portfolio savings targets.
- 110. A national study on the delivery of efficiencies within the Scottish public sector is being undertaken as part of Audit Scotland's programme of performance studies. The study will provide an overview of the Scottish Government's Efficient Government Initiative 2005/06 2007/08 and consider the extent to which public bodies are set up to deliver year on year efficiency savings. NHS Greater Glasgow and Clyde participated in this study. The key themes and messages will be reported in a national report due for publication in November 2009.
- 111. Further, at a local level we produced a high level summary report which concluded that the Board can demonstrate its commitment to the efficient use of resources with many examples of good practice. For example, the Board has a bi-annual system of organisational performance reviews that hold senior management to account for the performance of their service or area of responsibility. These hold managers to account for delivering local cost savings targets. Our local report also noted that there is still scope for improvement particularly in disseminating good practice across the health system.

National Studies

112. Audit Scotland's Public Reporting Group undertakes a programme of national studies each year in consultation with our stakeholders. The findings and key messages of each study are published in a national report. There is an agreed protocol between the local external audit team and NHS Greater Glasgow and Clyde whereby national reports are considered in detail at the board's Performance Review Group (PRG) or on occasions at a board seminar. Relevant senior managers are invited to attend the PRG to outline the impact of the national report and the Board's progress in addressing recommendations locally. This level of Non-Executive scrutiny of local actions taken against national reports is commendable and consistent with good practice. The most recent reports considered at PRG include:

Report Title	PRG Meeting	Paper presented by
Review of NGMS contract	18 November 2008	Head of Primary Care Support
Day surgery in Scotland – reviewing progress	17 March 2009	Director of Surgery and Anaesthetics
A Review of Palliative Care Services in Scotland	5 May 2009*	Director of Rehabilitation & Assessment
Review of NHS Diagnostic Services	19 May 2009	Director of Diagnostics – Acute Services Division

* Considered at Board seminar

113. A number of national reports are scheduled to be discussed at future PRG meetings. Audit Scotland's expectation is that NHS boards should consider the findings contained in national reports and identify actions to be taken locally. The national reports issued over the last year are mostly summarised below although some are already covered elsewhere in this report.

A review of palliative care services (August 2008)

114. The study examined a number of issues including access to, and quality of, palliative care services for adults with long term conditions. In 2006/07, £59 million was spent on specialist palliative care. Almost half of this came from the voluntary sector. The study emphasised that NHS boards and their partners need to plan now to meet the predicted increase in demand from an ageing population.

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115. The report recommended that NHS boards should:

- have an up-to-date strategy for delivering palliative care based on an assessment of the current and future needs of their local populations
- work with the voluntary sector to develop and agree protocols for primary care staff and nonspecialist hospital staff to refer patients to specialist palliative care services
- apply service improvements such as the Gold Standards Framework Scotland, Liverpool Care Pathway and Do Not Attempt Resuscitation policies in all care settings and ensure these are used appropriately.

Day surgery in Scotland – reviewing progress (September 2008)

- 116. This study highlighted that ten years after the first review of day surgery in Scotland, Audit Scotland has found that the rate of day surgery continues to rise but there remains wide variation in performance among health boards. Performing more operations as day cases, which involve no overnight stay in hospital, could potentially free up an estimated £8 million a year.
- 117. The report included some important recommendations:
 - there is urgent need for the Scottish Government Health Directorate, NHS boards and the Information Services Division (ISD) of NHS National Services Scotland to agree how best to ensure accurate and complete recording of surgical procedures undertaken in an outpatient setting
 - all NHS boards should adopt the British Association of Day Surgery (BADS) Information System and make effective use of this system.

Review of NHS diagnostic services (November 2008)

- 118. This review examined the efficiency and effectiveness of radiology, endoscopy and laboratory services. It focused mainly on the eight key diagnostic tests covered by the national waiting times target and examined the four main disciplines within laboratory services.
- 119. The report made a number of significant recommendations for the Scottish Government, NHS boards and ISD Scotland. In particular, it recommended that the Scottish Government work with NHS boards and ISD Scotland to improve data collection systems for all diagnostic services as a matter of priority and also ensure that robust benchmarking data are available to allow NHS boards to compare efficiency. Further, the report recommended that ISD Scotland work with the Scottish Government and NHS boards to improve the quality and consistency of national data sets that include diagnostic services, particularly the Cost Book.

Drug and alcohol services in Scotland (March 2009)

- 120. The aim of this study was to identify how much of the public sector spends on 'labeled' drug and alcohol services as well as the impact the money has had. The report recommended that public sector bodies should:
 - ensure that all drug and alcohol services are based on an assessment of local need and that they are regularly evaluated to ensure value for money
 - ensure that service specifications are in place for all drug and alcohol services and set out requirements relating to service activity and quality
 - set clear criteria of effectiveness and expected outcomes for the different services that they
 provide and undertake regular audits to ensure services adhere to expected standards.

Overview of mental health services in Scotland (May 2009)

- 121. This report provides an overview of mental health services and its main aim was to highlight areas for improvement and identify priorities for future audit work. The study covered mental health services provided by the NHS, councils, prisons, the police and the voluntary sector and examined the accessibility, availability and cost of services.
- 122. The report recommended that the Scottish Government and local partners should, amongst other things:
 - ensure that they work together to deliver services for people with mental health problems which are joined up and that appropriate services are provided on the basis of need
 - collect information about services in the community to enable better planning and development of services
 - work together to identify and address any gaps in services, including services for children and adolescents and the availability of psychological therapies
 - ensure that data on waiting times for mental health services are collected and reported routinely. Action should be taken to address services with long waiting times.
- 123. Full copies of this and our other national reports can be downloaded from Audit Scotland's website (www.audit-scotland.gov.uk).

Looking Forward

124. NHS Greater Glasgow and Clyde faces a number of challenges in 2009/10, which include:

- Service redesign and sustainability There are significant developments planned for the delivery of future healthcare services by the Board. The most significant is the continuing work on the Acute Services Review which will see the development of new hospital facilities in south Glasgow. This alone will present significant long term challenges in identifying and securing funding together with project management of a major capital build. The two Ambulatory Care Hospitals which became operational in 2009/10 will require significant levels of investment to be identified from within current revenue allocations. This will present a recurring cost pressure on the Board's financial plan in future years.
- Financial management and affordability The financial settlement in 2009/10 provides an uplift of 3.15% which may reduce in 2010/11 given the current economic situation and the impact of the UK Government budget in April 2009. This will have a significant impact on long term financial planning and the control of pay and non pay costs. The Board's savings targets for 2009/10 have increased to £50 million as a result of increased pay, prescribing costs and capital charges.
- International Financial Reporting Standards (IFRS) Officers are required to prepare shadow accounts under IFRS for 2008/09 by September 2009. The move to full compliance in 2009/10 will require significant effort and it will be important that these issues are addressed early in 2009/10.
- Efficiency, future funding and economic developments Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for NHS Greater Glasgow and Clyde is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives. This will be even more challenging in the context of the current economic downturn which may impact on a number of elements of the Board's operations including both its resources and the demand for its services.
- Equal Pay The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Greater Glasgow and Clyde has received over 5,000 of the 13,000 claims received nationally on this matter. Significant ongoing uncertainties have been identified by the CLO resulting in an unquantified contingent liability disclosure in 2008/09. However, Board management, working with the Scottish Government Health Directorates and other NHS Boards, will require to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.

Scotland Performs – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This includes progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how NHS Greater Glasgow and Clyde is addressing this developing area as part of the 2009/10 audit.

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- **Best Value** The concept of Best Value is seen as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year, particularly in the area of Use of Resources. NHS Greater Glasgow and Clyde will wish to respond to this important initiative as it develops.
 - Swine Flu (H1N1 Influenza) In terms of clinical activity a key risk going forward is the potential impact of H1N1 Influenza. Although the full extent of the swine flu situation is still emerging, all boards require to ensure plans are in place to deal with the local impact of the developing situation.
- 125. The Board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	NHS Greater Glasgow and Clyde as with other Boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the Board's financial position.	The NHS Scotland Central Legal Office (CLO) co-ordinated the legal response to all claims and has advised that the claims are not specific enough for any estimate of the potential liability to be made. The Board will continue to liaise with the CLO to monitor progress.	Director of Human Resources	Ongoing
2	The Board's balance sheet includes a current debtor of £6.5 million and a long term debtor of £26 million in respect of the disposal of the Woodilee Hospital site. There is a risk that, given the current economic climate and the reduction in land values that the income due from the site may not be fully realised.	The payment timescales for this debt match the development plan for the Woodilee site and have been agreed with the Consortium of 4 house builders which is taking forward the development. The Board continues to monitor the implementation of the development through its Property Committee and through participation in the Kirkintilloch Initiative and is in regular contact with the Consortium to ensure that payments are realised in line with agreed timescales.	Director of Finance	31/03/10
3	The Board faces a wide range of financial challenges and there is a risk that it may not be able to make its savings targets in 2009/10. The longer term financial plan remains at risk of not being affordable and is a significant challenge to the Board moving forward.	The Board continues to review and update its short term and longer term financial plans on an ongoing basis. This includes reviewing and updating its assessment of all key areas of financial risk and reflecting this in the development of revised cost savings plans. This process is overseen by the Board's PPPG and reported to the Board's PRG and full Board on a regular basis.	Director of Finance	Ongoing
4	The Board may not achieve the sickness absence target of 4%.	At the end of May 2009, the Board's sickness absence rate was 4.36%. This was a reduction from March 2008 of 0.54%. This represented considerable management effort with absence being monitored on a regular basis by management team, and the implementation of associated action plans. Daily absence monitoring has been introduced following the outbreak of H1N1 influenza, and the Absence Management Policy is adhered to by managers in order to drive down sickness absence and it is included in all managers' Personal Objectives.	Director of Human Resources	Ongoing

NHS Greater Glasgow and Clyde

Report on the 2009/10 Audit to the board and the Auditor General for Scotland

July 2010







NHS Greater Glasgow and Clyde

Report on the 2009/10 Audit to the board and the Auditor General for Scotland

July 2010

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Key Messages

Introduction

In 2009/10 we looked at the key strategic and financial risks being faced by NHS Greater Glasgow and Clyde (NHSGGC). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of NHS Greater Glasgow and Clyde for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

The board carried forward a £0.441 million surplus from 2008/09 before taking account of adjustments arising from the implementation of International Financial Reporting Standards (IFRS). As at 31 March 2010 the board disclosed a cumulative surplus of £0.122 million.

The board's financial statements include significant provisions, particularly in respect of pensions and clinical and medical negligence claims. However, the financial statements do not reflect any potential liability for Equal Pay claims as there is a lack of information to enable quantification of the liability. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any underestimate of costs in 2009/10 could have a significant impact in future years.

In the medium to longer term the board faces a number of challenges in maintaining its financial position. These include the requirement to meet the Government's savings targets, the cost pressures in respect of growth in prescribing costs, capital charges, pay modernisation and utility costs, and the uncertainty over the level of funding uplifts. The board had an underlying recurring deficit of £18.1 million in 2009/10 which was offset by a non recurring surplus of £18.2 million. The board has forecast a recurring deficit of £0.6 million in 2010/11. Non-recurring financial resources of £0.6 million have been identified to offset the deficit and achieve financial balance.

Partnership working

The board has established good partnership working arrangements in the areas of mental health and combating drug and alcohol misuse. However, there have been significant challenges in respect of partnership working with Glasgow City Council over the arrangements for the five Glasgow City Community Health Care Partnerships (CHCPs), particularly in relation to the full devolution of budgets. The board is considering disengaging from the current Glasgow City CHCPs and reorganising healthcare services based on a single NHS Entity with three operational sectors.

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However, a meeting of the board's Performance Review Group (PRG), in early July 2010, considered the outcome of the independent review of the Glasgow City CHCPs by Sir John Arbuthnott which was commissioned by Glasgow City Council (GCC). Members of the PRG agreed that Sir John Arbuthnott's report provided a basis to achieve sustainable integration of health and social care within Glasgow. The members of PRG further agreed that if, in their view, GCC were to match the board's commitments to the integration of health and social care, the board should then pursue an intensive joint process to progress Sir John's recommendation and end its process to develop an NHS CHP. This area is, therefore, one which remains in transition.

It has been disappointing to see that the board and the council have not yet been able to reach agreement on mutually supported and fully workable joint working arrangements. We would therefore encourage the participants in the partnership to ensure that effective joint arrangements are put in place.

Governance and accountability

Corporate governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall, the corporate governance and control arrangements for NHS Greater Glasgow and Clyde operated satisfactorily during the year, as reflected in the Statement on Internal Control. We also examined the key financial systems underpinning the organisation's control environment and concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

The board continues to progress work in improving data collection and ensuring consistency and comparability between different service areas within NHSGGC. Bi-annual organisational performance reviews (OPRs), chaired by the Chief Executive and a panel of Directors, review key areas of the local health system in conjunction with the local management team. This approach reflects good practice.

We carried out a best value review of people management arrangements at NHS Greater Glasgow and Clyde during the year using a best value toolkit. We concluded that the board were predominantly at the "better" practices level in this area.

The board is currently on track to achieve its HEAT (Health Improvement, Efficiency, Access and Treatment) targets. This involves a significant investment in resources from the board.

Looking forward

The final part of our report notes some key risk areas for NHS Greater Glasgow and Clyde going forward. There are significant challenges around future funding, implementation of the Acute Services Review, the achievement of savings targets and maintaining effective partnership working with Glasgow City Council National issues around Equal Pay claims may also provide a challenge in future years.

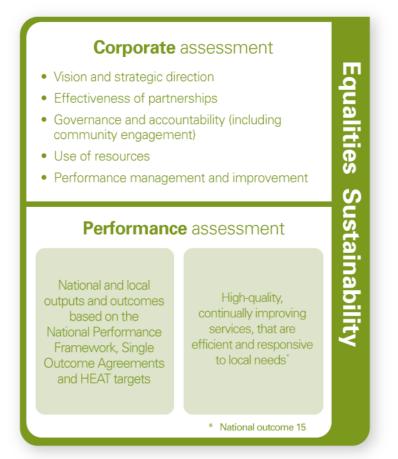
The assistance and co-operation given to us by board members and staff during our audit is gratefully acknowledged.

Audit Scotland July 2010

Introduction

- This report summarises the findings from our 2009/10 audit of NHS Greater Glasgow and Clyde. The scope of the audit was set out in our Audit Plan, in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 4 February 2010. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
- 2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
- 3. Best value duties apply across the public sector and, in the health service, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the formal introduction of its complete bank of best value toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body



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- 4. A linked development here has been the Scottish Government's work to refresh its 2006 best value guidance for public bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
- 5. Throughout this report we comment on aspects of NHS Greater Glasgow and Clyde's arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
- 6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of NHS Greater Glasgow and Clyde, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, <u>www.audit-scotland.gov.uk</u>.
- 7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of NHS Greater Glasgow and Clyde during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



8. In this section we summarise key outcomes from our audit of NHS Greater Glasgow and Clyde's financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources. The board's 2009/10 financial statements were prepared on the basis of International Financial Reporting Standards (IFRS) for the first time.

Our responsibilities

- 9. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the board and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the management commentary with the financial statements
 - the regularity of the expenditure and receipts.
- 10. We also review the Statement on Internal Control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable
 Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the Statement are consistent with our knowledge of the board.

Overall conclusion

- 11. We have given an unqualified opinion on the financial statements of NHS Greater Glasgow and Clyde for 2009/10.
- 12. As agreed, the unaudited accounts were provided to us on 10 May 2010 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHS Greater Glasgow and Clyde staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 22 June 2010 as outlined in our Annual Audit Plan.

Issues arising from the audit

- 13. As required by auditing standards we reported to the audit committee on 22 June 2010 the main issues arising from our audit of the financial statements. The key issues reported were as follows.
- 14. Equal Pay Claims As at 31 March 2010, NHS bodies had received some 11,000 claims and these had been referred for the attention of the NHS Scotland Central Legal Office. NHS Greater Glasgow and Clyde currently has 4,846 claims outstanding. It is possible that these claims represent a current liability for NHS boards generally. As with a number of other NHS boards, an unquantified contingent liability and has been included in NHSGGC's accounts for equal pay. Further details on this issue are included at paragraphs 18 to 21 below.

Risk area 1

- 15. **Pension provisions** The current information received from the Scottish Public Pensions Agency (SPPA) is considered by the board to be insufficiently detailed and consequently the provision is based on best estimates. This is a recurring issue that affects all NHS boards. As in previous year's we again requested officials to review a number of cases where there appeared to be an overprovision. This resulted in a reduction of £290,000 although further review will be necessary when updated information is received from the SPPA. The board provided us with formal assurances, in a letter of representation, that the provision represents a reasonable estimate of the liability for pensions.
- 16. **Pension discount rate** In the initial financial statements presented for audit, the pension and injury benefits provisions had been discounted at a rate of 2.2%. Advice received from the Scottish Government Health Finance Department (SGHD) on 19 April 2010 intimated that the discount rate to be applied should have been 1.8%. The application of this revised discount rate would have resulted in an increase of approximately £1.9 million in pension provisions and a corresponding charge to the Operating Cost Statement. NHSGGC and some other NHS boards asked the SGHD to review the position because it would have been unfair to utilise resources to cover for what was essentially a technical adjustment. The SGHD, having considered this matter, agreed to adjust the board's funding limit to accommodate the late change in the pension discount rate. This arrangement is on the basis that the funding adjustment will be reversed if the discount rate increases beyond the 2.2% previously applied or at an earlier date agreed between the board and the SGHD.
- 17. Disposal of the former Woodilee Hospital site The board's balance sheet includes a debtor balance of £24.5 million in respect of the disposal of the former Woodilee Hospital site. This sum is due to be paid over a period of years in accordance with a payment structure agreed with a consortium of developers. We sought and obtained formal assurance from the board, in a letter of representation, that the income due from Woodilee would be fully recovered.

Equal Pay Claims

- 18. The National Health Service in Scotland has received in excess of 11,000 claims for equal pay and NHSGGC has currently 4,846 claims outstanding. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.
- 19. Developments over the past year have slowed the progress of claims and led to a reduction in the number of claims going forward. The CLO have stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The NHS Scotland Central Legal Office and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.
- 20. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2009/10. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2009/10 financial statements of affected NHS boards. Given the developments during the year and the comprehensive disclosure within the financial statements, auditors agreed that the emphasis of matter paragraph included within the 2008/9 audit opinion was not required for 2009/10.
- 21. We continue to strongly encourage NHSGGC, working with the Scottish Government Health Directorates, the CLO and other NHS boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.

Regularity

22. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards

23. As announced by the Chancellor in the 2008 Budget report on 12 March 2008, Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. As a prerequisite to this health boards were required to prepare shadow IFRS based accounts for 2008/09 to provide comparative figures for the 2009/10 IFRS based accounts. This exercise progressed well and provided a solid base for compiling the 2009/10 accounts.

Use of Resources

- 24. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of NHS Greater Glasgow and Clyde's:
 - financial position
 - financial sustainability and the 2010/11 budget
 - management of people
 - management and use of ICT.

The board's financial position

Outturn 2009/10

25. NHS Greater Glasgow and Clyde is required to work within the resource limits and cash requirement set by the Scottish Government. The board's performance against these targets is shown in Table 1.

Table 1

2009/10 Financial Targets Performance

Financial Target	Target £ Million	Actual £ Million	Variance £ Million
Revenue Resource Limit	2,100.273	2,100.151	0.122
Capital Resource Limit	329.047	329.040	0.007
Cash Requirement	2,353.000	2,352.909	0.091

26. The board has achieved a cumulative surplus of £0.122 million. The board carried forward an adjusted surplus of £0.441 million from 2008/09. Table 2 overleaf shows how the current year's surplus of £0.122 million was achieved through a combination of recurring and non-recurring funding. The board had an underlying recurring deficit of £18.1 million in 2009/10 which was offset by a non recurring surplus of £18.2 million.

Table 2

Funding Position 2009/10

	£ Million	£ Million
Recurring income	2,701.0	
Recurring expenditure	2,760.4	
Recurring savings	41.3	
Underlying recurring surplus/(deficit)		(18.1)
Non-recurring income	48.6	
Non-recurring expenditure	36.9	
Non-recurring savings	6.5	
Non-recurring surplus/(deficit)		18.2
Financial surplus/(deficit)		0.1
Underlying recurring surplus/(deficit) as a percentage of recurring income		(0.67%)

Financial sustainability and the 2010/11 budget

- 27. In 2006/07, the board inherited a recurring deficit of £26 million from the former NHS Argyll and Clyde. The board secured the agreement of the SGHD for transitional funding over a three year period to allow NHSGGC to address this deficit. At March 2010 the board had succeeded in reducing all but £7 million of the £26 million recurring deficit. This residual amount is being addressed through the board's financial planning process.
- 28. There were tighter financial settlements for health boards in 2009/10 with a general uplift of 3.15% which was equivalent to the previous year but considerably down on the 6% in previous years. This downward trend has continued in 2010/11 as the SGHD has confirmed a general funding uplift of 2.15%. Also, with effect from April 2010 the SGHD confirmed a supplementary funding uplift of 0.4% giving an overall increase of 2.55% for NHSGGC in 2010/11. The supplementary funding uplift relates to the consolidation of access funding made available on a non-recurrent basis in previous years. It is likely that funding limits will be lower still in future years. This will have a significant impact on long term financial planning and the control of pay and non pay costs.
- 29. In 2009/10 the board's cost savings plan was central to the board achieving financial balance. The board came close to achieving its savings target of £49.4million in 2009/10, delivering £47.8 million of costs savings including a contribution of £4 million of non-recurrent costs savings to support the residual funding gap for the Clyde area. The board's 2010/11 cost savings plan is again central to it

achieving a break-even financial position in 2010/11. The plan aims to deliver £56.9m of recurring cost savings in 2010/11 which is equivalent to almost 3% of its Revenue Resource Limit. The board is aiming to deliver these savings through local cost savings targets (£36.7 million) and area wide strategic reviews (£20.2 million). This represents a major challenge for the board especially as this will be the third year in a row in which the board has been required to achieve a cost savings target

approximating to £50 million in order to secure a balanced financial position. This is against a background of likely significant cuts in public sector spending by both the UK and Scottish Governments.

Risk area 3

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30. A significant cost pressure for the board is the rate of growth in prescribing costs which currently is around 6% before any cost savings initiatives. For 2010/11, prescribing growth and inflation costs increases are likely to be of the order of £19.5 million. However, recent projections indicate that prescribing costs may be set to grow by a further £2 million. The board has a planned savings target of £9.5 million for prescribing to help offset the growth in costs but with the potential increase in costs of £2 million it will be necessary for the board to look for further cost saving measures in 2010/11. This remains a significant challenge for the board.

Risk area 4

31. The board has invested substantially in recent years to achieve the SGHD's national access targets on an ongoing basis. In compiling its financial plan for 2010/11 the board has assumed that it will require to deploy/utilise an additional £5 million of recurring funding each year to achieve national targets. There is the risk that the additional funding will be insufficient to enable the board to comply with the SGHD national targets. There is also a risk that the level of SGHD earmarked funding available to the board may be less than the sum received in 2009/10 (£ 34.4 million).

Risk area 5

32. Pay costs account for approximately 60% of all board expenditure and therefore have an important bearing on the board's financial position. During 2009/10 the board worked through the process of reviewing appeals in respect of Agenda for Change (AfC) assimilations. The additional recurring costs of those appeals that were upheld were closely aligned to the additional funding provision set aside by the board. The 2010/11 financial plan assumes that there will be no significant cost pressure from AfC while the growth in pay costs in subsequent years will remain fairly static at 1% in 2011/12 and 2012/13 respectively. A key challenge going forward is the potential liability for Equal Pay claims. As yet as there is a lack of information available to the board to enable quantification of this liability.

33. In the medium to longer term the board faces a number of challenges to maintaining its financial position. These include the requirement to develop comprehensive cost savings plans to achieve recurring savings, the cost pressures in respect of growth in prescribing, capital charges, pay increases and utility costs, and the uncertainty over the level of uplifts. The public sector as a whole is facing a difficult time ahead as emphasised in the Auditor General for Scotland's report 'Scotland's public finances: preparing for the future' (February 2010) which is considered in more detail below.

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Extract from Auditor General's report Scotland's public finances

The public sector is coming under the greatest financial pressure since devolution.

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

In the current economic climate difficult decisions will have to be made about priority spending programmes.

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.



People management

- 34. Audit Scotland is developing a range of audit toolkits to test for the application of key best value principles. These are being developed for use by auditors although they are also being made available to public bodies themselves for reference. In 2009/10, continuing our focus on the use of resources, we applied the best value toolkit on People Management. This exercise was part of our developing approach to the audit of best value which involves the cumulative development of a picture of NHS Bodies' best value activities over a period of time, setting it in the context of identified best practice.
- 35. The People Management toolkit covered a number of specific areas: policies and structures supporting effective people management; integration of workforce planning with strategic and financial planning processes; managing and developing the performance of staff, and communication and involvement of staff.
- 36. A number of areas of good practice were identified by our audit work including:
 - The board holds an annual Partnership Conference which involves senior managers and senior trade unionists and discusses amongst other things the results of the staff survey.
 - The board is currently in discussion with East Renfrewshire and Inverclyde Councils to establish shared HR services for Community Health Partnerships.
 - A Joint People Strategy is in place which applies to Glasgow City Council and NHSGGC employees working in partnership.
- 37. We also identified several areas where improvements could be made. These included:
 - NHSGGC does not yet have a coherent approach to talent management which links together recruitment, retention, reward, appraisal processes and succession planning.
 - There is a need to continue to provide development opportunities for frontline managers. The NHSGGC leadership programme should help address this.
 - NHSGGC should consider how it can further develop the measurement of individual and team productivity at all levels of the organisation.
- 38. Our overall conclusion was that NHS Greater Glasgow and Clyde were predominantly at the "better practices" level in terms of people management. This is a good platform to build on going forward.

39. Also, as with other health boards in Scotland, Greater Glasgow and Clyde faces a major challenge in achieving the national sickness absence target of 4%. The current sickness absence rate for the board is 4.75% which although above target is an improvement on last year when the rate was 4.93%. The board is taking action to reduce sickness absence through its Attendance Management Policy and by the inclusion of attendance management as a key target for senior staff within their performance objectives.

Risk area 6

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Management and use of ICT

40. As part of the 2009/10 audit we reviewed the two aspects of the board's management and use of ICT. The following paragraphs provide more details of our work in this area.

ICT data handling review follow-up report

- 41. High profile security incidents have increased public awareness of the dangers of any lack of control of personal information. A recent incident at another NHS board is a case in point where a memory stick containing confidential information was found by a member of the public in a supermarket car park.
- 42. In the current year we carried out a follow-up audit of our 2008/09 ICT data handling review report. We found that management have taken steps to strengthen data handling by implementing an information governance and security framework supported by a range of policies. Additionally, during May 2010 the board carried out a staff awareness campaign to publicise the Information Governance website and the relevant policies. The campaign comprised a guidance document issued to all staff with their May pay slips.
- 43. At the time of our audit, Health Information and Technology (HI&T) management had produced draft guidance on the handling of confidential and sensitive information but this was still to be finalised.

Management of ICT service delivery

- 44. The audit focused on control objectives that contribute to ICT service delivery in support of users in the achievement of organisational goals.
- 45. A number of meetings have been held with HI&T management during the course of our audit to apprise them of our audit findings. A report draft report is due to be issued shortly. Some of the emerging issues are summarised below for the attention of members:
 - The ICT service supports a user base of around 30,000 as well as GP practice staff.

- By its nature ICT service delivery can be reactive in responding to user demand. However, with clinical and administrative staff becoming more dependent on ICT, a future ICT service delivery model should seek to be more proactive, anticipating changes in user demand and planning for this in systems development.
- IT operational practices increasingly have to meet different technical demands due to the expansion and introduction of new services throughout the board.
- 46. A full report of our findings will be presented to the next meeting of the Audit Committee which is scheduled for 21 October 2010.

Governance and Accountability

- 47. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our main findings arising from our review of NHS Greater Glasgow and Clyde's arrangements.
- 48. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

- 49. This year we reviewed:
 - internal audit (paragraph 66)
 - key systems of internal control (paragraphs 61 to 63)
 - aspects of ICT (paragraphs 40 to 46)
 - arrangements for the prevention and detection of fraud and irregularity (paragraphs 67 to 69)
 - commitment to the National Fraud Initiative (paragraphs 70 to 76).
- 50. Our overall conclusion is that governance arrangements within NHS Greater Glasgow and Clyde are sound and have operated throughout 2009/10.

Patient safety and clinical governance

- 51. The board continues to work with NHS Quality Improvement Scotland (NHS QIS) to support the implementation of the clinical governance and risk management standards to ensure that clinical governance principles are embedded in local practice. The board was visited by NHS QIS in September 2009 and the findings from the visit were reported in January 2010. The report highlighted that the board had made good progress in all areas since the last review in 2006.
- 52. The NHS QIS report identified that NHS Greater Glasgow and Clyde has a number of strengths:
 - Clearly embedded risk management structures throughout the board.
 - A strong commitment to clinical effectiveness and quality improvement.
 - A sound cycle of annual clinical governance reporting arrangements for operational entities with devolved responsibilities.
 - A robust performance management framework with a high level of qualitative information.

53. The Scottish Patient Safety Programme (SPSP) was launched in 2007. The main aim of the programme is to reduce mortality by 15% and adverse events by 30%. NHSGGC's aim is to achieve full implementation of the core programme in Acute Services by December 2012. The core programme includes improved staff capability in all wards and creation of reliable processes for every relevant element in every ward. In 2010 the board is also aiming to develop SPSP style improvement programmes in Paediatrics and Mental Health.

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- 54. The Cabinet Secretary for Health and Wellbeing set up an independent Review Panel in June 2008 to look into the C.Diff outbreak at the Vale of Leven Hospital. The Panel's report was published in early August 2008 and made a number of recommendations which were fully implemented by NHSGGC. The National Health Acquired Infection report published in February 2010 indicated that the level of C.Diff for NHSGGC was well below the national average and the HEAT target. However in early June 2010 the Scottish Government announced a Public Inquiry to look into the circumstances of this outbreak. Currently, the inquiry is at the stage of hearing evidence from relevant parties.
- 55. The Healthcare Environment Inspectorate published a report in April 2010 that commended NHSGGC for its work in preventing infection, including information displayed at ward entrances for staff, patients and visitors, and mandatory infection control training for all new staff. However, the board needs to remain vigilant especially as an inspection of the Southern General Hospital by the Inspectorate in March 2010 highlighted several areas where improvements were required including promotion of the infection control manual to staff and adherence to the dress code policy.

Partnership Working

- 56. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. The board has undertaken significant work in partnership with local authorities in establishing Community Health Care Partnerships [CH(C)Ps] and Community Health Partnerships to provide care and public health services in a local setting to meet the needs of the local population.
- 57. In September 2009 a Joint Partnership board involving Councillors and board members was established to revise the Scheme of Establishment for CHCPs within the City of Glasgow and to facilitate devolved budget responsibility by the Council. Agreement was reached between the board and the Council at the end of 2009. However, the Council subsequently decided not to take these arrangements forward and developed revised proposals for CHCPs. These included an incremental implementation of the Scheme of Establishment which was approved by the Council at its April 2010 meeting. The Council's revised proposal was not considered a viable option by NHSGGC and so the board notified the Council that because of this change its intention was now to disengage from the Glasgow CHCPs and look at alternative options for healthcare provision based on the CHP organisational model.

- 58. The board at its meeting on the 22 June 2010 approved revised arrangements for the delivery of NHS primary care and community care services within the Glasgow City boundary. The proposed revised arrangements included the creation of a single NHS CHP with a substructure of three sectors-East, West and South. Such a CHP would be governed by a single Committee chaired by a NHS Non-Executive and will include Glasgow City councillors representing the three sectors.
 - 59. However, a meeting of the board's Performance Review Group (PRG), in early July 2010, considered the outcome of the independent review of the Glasgow City CHCPs by Sir John Arbuthnott which was commissioned by Glasgow City Council (GCC). Members of the PRG agreed that Sir John Arbuthnott's report provided a basis to achieve sustainable integration of health and social care within Glasgow. The members of PRG further agreed that if, in their view, GCC were to match the board's commitments to the integration of health and social care, the board should then pursue an intensive joint process to progress Sir John's recommendation and end its process to develop an NHS CHP. This area is, therefore, one which remains in transition.
 - 60. It has been disappointing to see that the board and the council have not yet been able to reach agreement on mutually supported and fully workable joint working arrangements. We would therefore encourage the participants in the partnership to ensure that effective joint arrangements are put in place.

Risk area 7

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Systems of internal control

- 61. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10 PricewaterhouseCoopers, the board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant weaknesses that required specific mention in the Statement on Internal Control.
- 62. As part of our audit we reviewed the high level controls in a number of NHSGGC systems that impact on the financial statements e.g. payroll, procurement, trade receivables and general ledger. We concluded that NHSGGC has adequate systems of internal control in place. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.
- 63. In addition we placed formal reliance on aspects of internal audit's systems work in terms of International Standard on Auditing 610 (*Considering the Work of Internal* Audit) to avoid duplication of effort. In particular we relied on aspects of internal audit's financial systems work on trade payables, Family Health Services expenditure, capital asset management, payroll and bank reconciliations. In addition, we placed formal reliance on internal audit's review of board members' gifts, travel expenses, hospitality and conflicts of interest. The work of internal audit provides us with additional assurances on the adequacy of the internal control environment within NHSGGC.



Statement on internal control

- 64. The Statement on Internal Control (SIC) provided by NHS Greater Glasgow and Clyde's Accountable Officer reflected the main findings from both external and internal audit work. This SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.
- 65. The SIC also drew attention to significant progress in the area of Information Governance. A complete set of Information Governance and IT Security Policies is now in place, along with a programme to develop staff awareness of these policies, supported by the development of a number of e-learning training modules.

Internal Audit

66. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible. Also, as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on NHS Greater Glasgow and Clyde's internal audit function. We concluded that internal audit operate in accordance with relevant Internal Audit Standards and has sound documentation standards and reporting procedures in place. We therefore placed reliance on their work in a number of areas during 2009/10 as outlined at paragraph 63 above.

Prevention and detection of fraud and irregularities

- 67. NHS Greater Glasgow and Clyde has a comprehensive range of measures in place to prevent and detect fraud including Standing Financial Instructions, a Code of Conduct for staff and policies covering 'whistleblowing' and fraud. The board has also entered into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS).
- 68. The board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. Additionally, the board has agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services confirm Scotland. In 2009/10 these checks included verification against patient records, requesting patients to treatment by letter, visits to practices and examination of patients.
- 69. Furthermore, November 2009 was designated as fraud awareness month. NHSGGC as part of this initiative held several events, in conjunction with CFS, to promote awareness of anti-fraud measures.



NFI in Scotland

- 70. During the year NHSGGC took part in the 2008/09 National Fraud Initiative (NFI) in Scotland. The NFI in Scotland is a counter-fraud exercise led by Audit Scotland, assisted by the Audit Commission (our sister organisation in England). It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
- 71. NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
- 72. As part of our local audit work we carried out a high level assessment of NHSGGC's approach to the NFI. We concluded that the board is proactive in preventing and detecting fraud including participation in the NFI. The board's Financial Governance and Audit Manager and his team systematically review data matches. Additionally, the Audit Committee and Audit Support Groups receive regular reports on anti-fraud activities including updates of NFI investigations.
- 73. The Audit Scotland report *The National Fraud Initiative in Scotland; making an impact*, which was published on 20 May 2010 set out the results of the 2008/09 NFI exercise It involved 74 bodies, including councils, police forces, fire and rescue services, health boards, the Scottish Public Pension Agency and the Student Award Agency for Scotland.
- 74. Overall, the outcome of the 2008/09 exercise was worth £21.1 million to the public purse. The report also highlights that while the NFI has been successful, much of the information used in this exercise was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.
- 75. The cumulative outcome of the current and previous NFI exercises in Scotland is now around £58 million and there have been at least 80 successful prosecutions since the last NFI report in 2008. Audit Scotland will require data for the next NFI exercise in October. This is expected to be carried out under new powers currently before the Scottish Parliament. These will provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies that may be involved, and allow data matching to be used to detect other crime as well as fraud.
- 76. The national report *The National Fraud Initiative in Scotland; making an impact* includes a self-appraisal checklist. The Financial Governance and Audit Manager, with support from colleagues, completed the checklist. This is good practice and will help with the preparations for the NFI 2010/11.

Performance

77. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money/best value issues. Key features of best value include setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery. Additionally, it includes a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes for citizens.

Vision and strategic direction

78. The Corporate Plan outlines how the board is going to develop its key strategic objective to "deliver effective and high quality health services, to act to improve the health of our population and to do everything we can to reduce health inequalities." The plan consists of seven corporate themes as illustrated below.

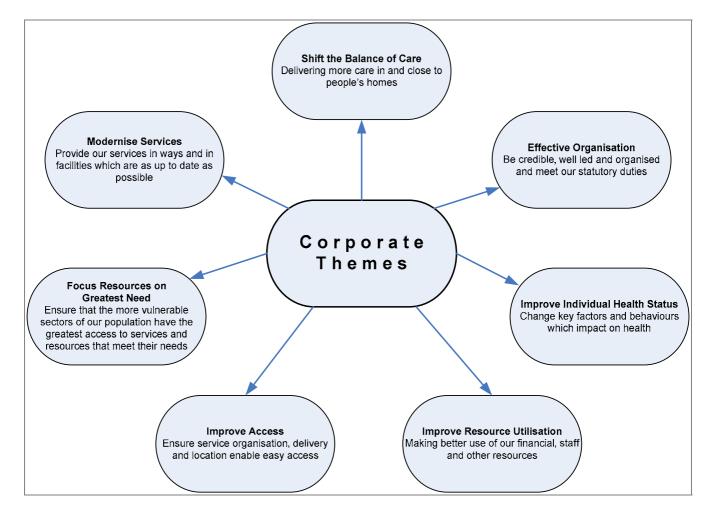


Exhibit 2: NHS Greater Glasgow and Clyde's corporate themes

79. The Corporate quarterly performances reports are submitted to NHSGGC's PRG for review and scrutiny. These reports are structured around the seven key corporate themes and include a commentary on performance against each theme. A traffic light system is also used to highlight performance targets and measures. Management consult members on the format and content of reports and work is ongoing to improve the consistency and comparability of the information produced across the organisation

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Managing risk

- 80. There are a number of key challenges and risks for the board in delivering its plan. The board has put in place robust systems for the identification and management of risk. The Risk Management Steering Group, chaired by the Director of Finance, is responsible for developing a single system of risk management for NHSGGC, and overseeing the development and maintenance of strategy and infrastructure. These corporate risk arrangements are supported by local departmental risk registers and arrangements. The challenge for the board will be embedding a risk aware culture within the organisation for the future management of existing and emerging risks in the medium to long term.
- 81. The main risk areas are:
 - securing financial stability
 - service redesign and sustainability
 - working in partnership
 - maintaining robust performance reporting frameworks
 - workforce planning.
- 82. These areas are all addressed in the earlier sections of this report. Each area is complex and comprises multiple issues which will require careful management to resolve. We have continued to monitor the board's progress in each of these areas over the course of the year.

Service Development

- 83. NHS Greater Glasgow and Clyde is committed, through the Acute Services Review (ASR), to developing a sustainable healthcare service to serve local communities and address the specific issues of health inequality and accessibility.
- 84. The ASR is fundamental to service redesign and modernisation within NHS Greater Glasgow and Clyde. The ASR is designed around a number of key developments which will see the rationalisation and reconfiguration of acute services across the city. A number of key elements of the ASR have already been delivered notably the two new Ambulatory Care Hospitals (ACHs) which opened in the spring of 2009 and the Beatson Oncology Centre, which was officially opened in February 2008. Current proposals include the consolidation of inpatient services currently provided at Stobhill and Glasgow Royal (GRI) with future services being provided at the GRI. The ASR implementation will involve changes to services being delivered from Gartnavel, the Western and the Southern General hospitals.

85. The next stage of implementation is crucial to the success of the ASR and will be very challenging for the board to deliver on time and on budget. The re-development at the Southern General hospital site is pivotal and will represent an investment of £842 million to be met from public funds. The new facilities will include a specialist adult acute hospital, a children's hospital and laboratory facilities. Brookfield Europe was appointed as the preferred bidder in November 2009 for the design and construction of these facilities and it is intended to submit a Full Business Case for the adult and children's hospitals to the PRG in November 2010 and thereafter to the board and the Capital investment Group .Work on the laboratories is already underway and is progressing well following the approval of the full business case by the SGHD.

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86. The board's Capital Plan 2010/11-2012/13 noted that the capital allocations from SGHD were considerably lower than had been forecast in the 2009/10-2011/12 Capital Plan. However, SGHD has confirmed its commitment to funding the cost of the Southern General project.

Performance Overview

- 87. The board receives regular reports on progress towards achieving waiting times and other access targets set by the Scottish Government (commonly known as HEAT targets). The board was successful in achieving a number of very challenging targets by the end of March 2010 including those for inpatients, outpatients, diagnostics and cancer. For cancer, the board succeeded in achieving the overall HEAT target of 95% of cases within 31 days (diagnosis) and 62 Days (commencement of treatment). For the 4 hours waiting time for Accident & Emergency cases the board failed to maintain this target month on month throughout the year to March 2010.
- 88. Waiting times have been falling over recent years as the board has achieved successive Government targets. The current Government target is that by December 2011 the total maximum journey will be 18 weeks from referral to treatment. At the end of March 2009 NHSGGC had achieved the target of no outpatients waiting more than 12 weeks from GP referral to an appointment and this has been maintained during 2009/10. The board also achieved the 12 week inpatient/day case target by March 2009 for inpatient /day cases and again this has been maintained during 2009/10.
- 89. The board has made significant progress over the course of the year to meet its delayed discharge target. The efforts of both the board and Council partners has progressively reduced the delayed discharges not meeting the target for all council areas served by the board and at April 2010 there were no patients waiting over six weeks for discharge. This was achieved due to close working between hospital, community and social work staff, and clearly demonstrates the positive outcomes that can result from good joint working arrangements.

90. There is now an expectation that all public sector bodies, including the NHS, should be able to demonstrate how their activities are aligned with the Government's over-arching purpose through the National Performance Framework (2008). This introduced Single Outcome Agreements (SOAs) for local government bodies in 2008/09. In 2009/10 this was extended to the health sector through the mechanism of Community Planning Partnerships. As a result, NHS boards are required to engage with local authorities, and other public bodies, to agree the priority outcomes and related indicators, and set out how these will support the National Outcome in SOAs.

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Performance Management

- 91. NHS Greater Glasgow and Clyde has a sound performance management framework in place for monitoring and reporting on performance. This framework consists of a number of core elements including:
 - Organisational Performance Reviews (OPRs) these reviews are carried out twice a year for all activities within NHSGGC and are part of the board's performance scrutiny and accountability arrangements. The OPRs are chaired by the Chief Executive and hold management to account for their performance. The reviews focus on areas of good practice, those in need for improvement and issues that require to be considered at a corporate level.
 - Waiting times and access targets the Chief Operating Officer of the Acute Services
 Division reports on waiting times and access targets at each meeting of the board. The report
 includes details of progress against targets and is accompanied by a narrative which provides
 contextual information.
 - Balanced scorecards a HEAT (Health Improvement, Efficiency, Access and Treatment) scorecard performance report is submitted, on a quarterly basis to the board's PRG. The report incorporates a traffic light system. In addition, it outlines the board's position in relation to each of the HEAT targets, and standards, and highlights the direction of travel since the last reporting period.
- 92. The Annual Review in October 2009, chaired by the Cabinet Secretary for Health and Wellbeing, highlighted areas where specific action would be required to improve health and treatment including reporting progress on the minimising of alcohol and substance misuse. Further areas for action included addressing infection control issues, the achievement of recurring financial balance and the delivery of all waiting/access and HEAT performance targets.
- 93. One of the major challenges facing all boards in Scotland is tackling health inequalities. The board recognises this challenge and has incorporated actions within its Local Delivery Plan, service plans and performance reports to assess progress in this area.
- 94. The Director of Public Health in her 2009 Annual report commented that although there had been considerable improvement in the health of people living with the NGSGGC area "it still experiences some of the widest variations in health between the affluent and the poor in society".



Improving public sector efficiency

- 95. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
- 96. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead the most significant since devolution and making the required savings through efficiency will become increasingly difficult.
- 97. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
- 98. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see overleaf).

Extract from Audit Scotland report Improving public sector efficiency

In order to improve the delivery of efficiency savings public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.
- 99. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible within the board for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.

National Studies

- 100. Audit Scotland's Public Reporting Group undertakes a programme of national studies each year in consultation with key stakeholders. The findings and key messages of these studies are published in national reports which are publicised and widely distributed. In addition they are also available on audit Scotland's website.
- 101. At the local level, a protocol has been agreed between the external audit team and NHS Greater Glasgow and Clyde whereby national reports are considered in detail at the board's PRG or on occasions at a board seminar. Relevant senior managers are invited to attend the PRG to outline the impact of the national report and the board's progress in addressing recommendations locally. This level of Non-Executive scrutiny of local actions taken against national reports is commendable and consistent with good practice. The most recent reports considered at PRG are summarised in the table overleaf.

Table 3

Audit Scotland national performance reports considered by PRG

Report Title	PRG Meeting	Paper presented by
Review of Major Capital Projects in Scotland	15 September 2009	Director of Acute Services Strategy Implementation and Planning
Asset Management in the NHS in Scotland	19 January 2010	Director of Facilities
Drug and Alcohol Services in Scotland	19 January 2010	Director of Corporate Planning & Policy / Lead Director Glasgow CHCPs
Overview of the NHS in Scotland's Performance 2008/09	19 January 2010	Assistant Director of Audit (Health) Audit Scotland
Managing the Use of Medicines in Hospitals – Follow-up Review	16 March 2010	Head of Services Pharmacy & Prescribing Support Unit
Improving Public Sector Purchasing in Scotland	4 July 2010	Director of Facilities
Managing NHS Waiting Lists : A review of new arrangements	4 July 2010	Director of Surgery and Anaesthetics

102. A number of national reports are scheduled to be reviewed and discussed at future PRG meetings. Audit Scotland's expectation is that NHS boards should consider the findings contained in national reports and identify actions to be taken locally. The other national report to be considered is the *Review of Orthopaedic Services (issued March 2010).*

Looking Forward

103. NHS Greater Glasgow and Clyde faces a number of challenges in 2010/11, which include:

- Financial management and affordability The financial settlement in 2010/11 provides an uplift of 2.55% which may reduce in 2011/12 given the current economic situation and the impact of the recent UK Government emergency budget in June 2010. This will have a significant impact on long term financial planning and the control of pay and non pay costs. The Financial Plan for 2010/11 indicates that the board could face an additional challenge of £36.5 million in 2011/12 which will require more radical options in terms of cost savings. The board's savings targets for 2010/11 have increased to £57 million as a result of increased pay, prescribing costs and capital charges.
- Efficiency, future funding and economic developments Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2008/09, but there are serious financial challenges ahead the biggest since devolution and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. NHSGGC needs to find at least £130.6 million of savings over the next three years to achieve financial balance. The challenge for NHSGGC is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- Service redesign and sustainability There are significant developments planned for the delivery of future healthcare services by the board. The most significant is the continuing work on the Acute Services Review which will see the development of new hospital facilities in south Glasgow. This alone will present significant long term challenges in identifying and securing funding together with project management of a major capital build, and will be a recurring cost pressure on the board's financial plan in future years.
- Equal Pay The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Greater Glasgow and Clyde currently has 4,846 claims outstanding. Significant ongoing uncertainties have been identified by the CLO resulting in an unquantified contingent liability disclosure in 2009/10. However, board management, working with the Scottish Government Health Directorates and other NHS boards, will require to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.

Partnership working – The board's future plans for health and social care partnership working in the Glasgow City Council area, when finally agreed, have to be carefully managed to ensure that services are not disrupted. It is also important that good working relationships are maintained with Glasgow City Council as part of the joined-up approach to service delivery. Furthermore, the good practices and lessons learned from working in a CHCP environment should be carried forward into the any new model of service delivery wherever practical.

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- VAT increase The Chancellor's emergency budget on 22 June 2010 included an increase in VAT from 17.5% to 20% from January 2011. It is estimated that this could increase the cost of the Southern General project by £22 million. In addition it has been reported that the VAT increase will increase the cost of supplies across the NHS in Scotland by £26 million and NHSGGC will bear a significant portion of the increase. The increase in VAT poses a significant risk to the board's financial position.
- Best Value The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. NHS Greater Glasgow and Clyde should continue to respond to this important initiative as it develops
- 104. The board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the board is making on these key issues.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	NHS Greater Glasgow and Clyde as with other boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the board's financial position.	The NHS Scotland Central Legal Office has co-ordinated the legal response to all claims and will continue to do this. CLO has advised that the claims are not specific enough for any estimate of potential liability to be made. The Board will continue to liaise with CLO to monitor progress.	Director of Human Resources	Ongoing
2	The board's balance sheet includes a debtor balance of £24.5 million in respect of the disposal of the Woodilee Hospital site. There is a risk that, given the current economic climate and the reduction in land values that the income due from the site may not be fully realised.	The payment timescales for this debt match the development plan for the Woodilee site and have been agreed with the Consortium of four housebuilders which is taking forward the development. The Board continues to monitor the implementation of the development through its Property Committee and through participation in the Kirkintilloch Initiative and is in regular contact with the Consortium to ensure that payments are realised in line with agreed timescales.	Director of Finance	31 March 2011
3	The board faces a wide range of financial challenges and there is a risk that it may not be able to make its savings targets in 2010/11. The longer term financial plan remains at risk of not being affordable and is a significant challenge to the board moving forward.	The Board continues to review and update its short term and longer term financial plans on an ongoing basis. This involves reviewing and updating its assessment of all key areas of financial risk, and reflecting this in the development of revised cost savings plans. This process is overseen by the Board's Corporate Management Team and reported to the Board's PRG and the full Board on a regular basis.	Director of Finance	Ongoing
4	Initial forecasts for prescribing costs predicted an increase of £19.5 million in 2010/11 and the board had a planned savings target of £9.5 million to meet these increased costs. However, recent projections indicate that prescribing costs are set to grow by a further £2 million and this will require further cost saving measures	The Board continues to monitor prescribing costs through its Prescribing Management Group and supporting Primary Care and Acute prescribing subgroups. These groups are responsible for reviewing expenditure outturns and future expenditure forecasts and are overseen by the Board's Corporate Management Team which in turn reviews and reports progress on the achievement of the Board's financial plan to the Board's PRG and the full Board on a regular basis.	Director of Finance	Ongoing

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Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
5	The board's 2010/11 Financial Plan assumes that it will require to deploy an additional £5 million funding to meet the national access targets. There is a risk that the additional funding will be insufficient to meet the targets. There is also a risk that that SGHD funding for access targets will reduced from the 2009/10 level.	The Board's Acute Division Senior Management Group continually monitors expenditure required to ensure compliance with access targets. It is overseen by the Board's CMT which in turn reviews and reports progress with the achievement of the Board's financial plan to PRG and to the full Board on a regular basis.	Chief Operating Officer, Acute	Ongoing
6	The board may not achieve the sickness absence target of 4%.	The current sickness absence rate is 4.75% which is an improvement on the equivalent figure reported for the previous year. The Board continues to carefully monitor attendance at work throughout the application of its absence management policy, including daily absence monitoring by managers. This process is led by the Director of Human Resources and overseen by the Board's CMT which reports performance to the PRG and the full Board on a regular basis.	Director of Human Resources	Ongoing
7	The board is currently planning to revise arrangements for partnership working within the Glasgow City boundary. The board needs to ensure that the resulting arrangements maximise the benefits of joint working. There is a risk that the process could impact on the provision of services during the transition period.	The CEO is currently leading a process of engagement with Glasgow City Council to agree a basis for the implementation of effective future joint working arrangements between the Council and the Health Board. The Board has latterly been working on the development of a plan to move to a single NHS CHP however if GCC confirms a commitment to match NHS GGC's commitments to the integration of health and social care, then the Board will follow an alternative path and pursue an intensive process to progress recommendations made by Sir John Arbuthnott for the integration of health and social care with GCC. In either case, the Board will take steps to ensure that the provision of services is sustained during any period of transition.	Chief Executive Officer	31 March 2011

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
8	VAT is set to increase from 17.5% to 20% from January 2011. This will have a significant impact on the cost of supplies and the cost of the Southern General project.	The Board continues to review and update its short term and longer term financial plans on an ongoing basis. This involves reviewing and updating its assessment of all key areas of financial risk, and reflecting this in the development of revised cost savings plans. This process is overseen by the Board's Corporate Management Team and reported to the Board's PRG and the full Board on a regular basis.	Director of Finance	Ongoing

NHS Greater Glasgow and Clyde Annual report on the 2010/11 audit





Prepared for NHS Greater Glasgow and Clyde and the Auditor General for Scotland July 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scotlish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

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Key messages

2010/11

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2010/11 we assessed the key strategic and financial risks being faced by NHS Greater Glasgow and Clyde (NHSGGC). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified audit report on the 2010/11 financial statements of NHSGGC. We also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

The board achieved all its financial targets in the current year and returned a saving against its total Revenue Resource Limit of £0.685 million. The board also achieved its savings target of £56.9 million. The board's sound financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to be addressed promptly.

In 2010/11 the board met or exceeded a number of challenging performance targets set by the Scottish Government and in a number of areas performance continues to improve. However some performance targets were not fully achieved and in those cases the board has established actions to improve performance.

NHSGGC is committed to a process of continuous development and improvement. This is particularly evident through the regular organisational reviews carried out within the board. The board also has arrangements in place to consider national performance reports issued by Audit Scotland with local action plans to address any recommendations for improvement. Furthermore, as stated in the Statement on Internal Control, the board will prepare a detailed Best Value framework as part of the annual review of the system of internal control for 2011/12.

Through its Acute Services Review the board continues to deliver significant developments to rationalise and reconfigure acute services across the board area. The most substantial development is the new South Glasgow Hospitals and Laboratory project. Work is progressing steadily with the structure of the new laboratory building now being complete. Work on the South Glasgow Hospitals is expected to be completed in 2015. The SGHD remains committed to funding the £842million cost of this project.

The board remains committed to ensuring that workforce plans are properly aligned to service and financial plans. In 2010/11 the board's workforce reduced by 3% (888 full time equivalents) with the majority of this achieved through natural turnover and redeployment.

In 2010/11, the board had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance. These included an Audit Committee, Staff Governance Committee, Clinical Governance Committee and Involving People Committee. The board also has a strong internal audit function and good anti-fraud arrangements.

Outlook

The position going forward is becoming even more challenging than in previous years with limited increases in funding, increasing cost pressures and significant savings targets. For 2011/12 the board is dependant on achieving savings of £57 million, which is the fourth year in succession that the board has been required to make savings in excess of £50m in order to maintain its financial position. This is particularly challenging given cost pressures arising from the effects of pay growth, increasing prescribing costs and volatile energy costs.

The significant financial challenges that the board will face in 2011/12 and beyond will require the board to prioritise its use of resources. This will make maintaining or improving on the performance targets set by the Scottish Government even more difficult.

During the year the board and its then partner, Glasgow City Council, experienced problems in the operation of its Community Health and Care Partnerships and the board revised its arrangements for the delivery of NHS primary care and community care services within the Glasgow City boundary. Our national report on Community Health Partnerships also concluded that, nationally, previous arrangements had not demonstrated an integrated health and social care service that clearly improved people's health and quality of life. The board should ensure that the new partnership arrangements demonstrate the anticipated re-focusing of the balance of care between acute and primary care provision.

The achievement of the board's 2011/12 cost savings plan is likely to bring about a reduction in staff numbers. The board recognises that not all staff reductions will be achieved through natural wastage and redeployment and has therefore set aside a provision of £6 million in its financial plan for any staff who wish to leave voluntarily. It is important that this process is well managed and aligned with business and financial plans. In particular, the board should ensure appropriate knowledge and experience is retained among key officers to maintain the board's capacity to deliver its services.

Introduction

- 1. This report is the summary of our findings arising from the 2010/11 audit of NHS Greater Glasgow and Clyde (NHSGGC). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
- A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHSGGC.
- 3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that NHSGGC understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
- 4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the audit committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public as audit is an essential element of accountability and the process of public reporting.
- 5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's performance later this year. The overview report is published and presented to the Public Audit Committee of the Scotlish Parliament.
- 6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

Financial statements

- 7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
- 8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
- 9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Director's Report, Statement on Internal Control and the Remuneration Report. This section summarises the results of our audit of the financial statements.

Audit opinion

- **10.** We have given an unqualified opinion that the financial statements of NHS Greater Glasgow and Clyde for 2010/11 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
- 11. NHSGGC is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.
- **12.** We have also reviewed the board's statement on internal control and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Accounting issues

14. As agreed, the unaudited accounts were provided to us on 09 May 2011 supported by a comprehensive working papers package. The good standard of the supporting papers and

the timely responses from NHSGGC staff allowed us to conclude our audit within the agreed timetable and provide our proposed opinion to the Audit Committee on 21 June 2011 as outlined in our Annual Audit Plan.

- **15.** A number of presentational adjustments and some monetary adjustments were made to the accounts submitted for audit. The overall net impact of the monetary adjustments was to increase the total revenue surplus from £352k to £685k.
- **16.** We reported to the audit committee on 21 June 2010 the main issues arising from our audit of the financial statements as required by auditing standards. The main points were as follows:

Equal Pay Claims

- 17. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and 4,198 of these relate to NHSGGC. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.
- 18. Developments over the past year have slowed the progress of claims and led to a reduction of claims going forward. The number of claims relating to NHSGGC has reduced from 4,846 in 2009/10 to 4,198 in the current year (i.e. a 13% reduction). The CLO have stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or any financial impact they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position
- 19. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2010/11. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2010/11 financial statements of affected NHS boards.
- 20. We continue to strongly encourage NHSGGC management, working with Scottish Government Health Directorates, the CLO and other NHS boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.
- 21. As with other boards, NHSGGC has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities could have an impact on the board's financial position.

Risk Area 1

Disposal of Woodilee Hospital

22. The board's balance sheet at 31 March 2001 includes a debtor balance of £21.5 million which is in respect of the disposal of the former Woodilee Hospital site. This sum is due to be paid over a number of years in accordance with a payment structure agreed with a consortium of developers. We sought and obtained formal assurance from the board, in a letter of representation, that the income due from Woodilee would be fully recovered. There is a risk that, given the current economic climate and the reduction in land values that the income due from the site may not be fully realised.

Risk Area 2

Disposal of part of the Western Infirmary

23. The board disposed of part of the site at the Western Infirmary to the University of Glasgow in 2010/11 with the sale proceeds being received on 31 March 2011. The sale price was £9.277m. As the board will continue to occupy the site under a lease agreement until the completion of the Southern General Hospital site, a number of accounting issues emerged, particularly in relation to how the proceeds of sale should be disclosed in the accounts and how this might best match the various funding streams provided by the Scottish Government Health Directorates (SGHD). These matters have now been discussed and resolved with the assistance of the SGHD and appropriate disclosures have been made in the financial statements.

Pharmacy stocks

- 24. During our pre-year end testing we identified that most pharmacy sites were not carrying out perpetual inventory checks. This was brought to management's attention in order to allow remedial action to be taken at the year-end. The value of pharmacy stock was £9.5 million with most held at the Pharmacy Distribution Centre. The year-end pharmacy stock reconciliations lacked sufficient detail and clarity to allow us to fully agree the pharmacy stock value included in the balance sheet.
- 25. We sought and obtained formal assurance from the board, in a letter of representation that the value of pharmacy stock included in the balance sheet was reliable and supported by detailed working papers. We are satisfied with the response from the board and that there is no material misstatement.

Accrual of centrally allocated funds

26. In the course of the 2010/11 audit we noted £17.9 million of unutilised SGHD funding allocations where the related expenditure has been accrued as a liability by the board as at 31 March 2011. The position in respect of these allocations is variable in that there are some accruals which clearly reflect irrevocable commitments, particularly in relation to ICT projects (approximately £7.1 million), while in others, the evidence of an irrevocable commitment to use these funds is less clear. It has been noted by auditors at a number of NHS boards that there is a lack of consistency across organisations on how allocations unutilised at the year

end are treated in the financial statements. We have advised NHSGGC that there would be merit in reviewing this area with other NHS boards, in conjunction with the SGHD, to ensure a more consistent treatment in future years.

Prior year adjustments - cost of capital

27. The 2010/11 FreM removed the requirement for boards to charge a notional cost of capital in their accounts. This was a change in accounting policy which was reflected in the financial statements of NHSGGC with an appropriate adjustment of £34.7 million made to prior year statements.

Change in estimation of asset lives

28. During 2010/11 the board conducted a review of the methodology for determining the useful life of assets. The exercise was carried out by the board's internal auditors (PricewaterhouseCoopers) and was supported by the SGHD. The revised methodology takes account of patterns of consumption and maintenance and preservation spending. This approach aligns the lives of the less significant elements with the overall life of the building so that they can be depreciated over that period. As a result, it is intended that the annual depreciation charge more faithfully reflects the pattern of consumption of the asset. The revised methodology resulted in a significant reduction in the board's cost base. In our opinion this approach is reasonable and consistent with accounting standards.

Outlook

Endowments

29. As a result of an agreed derogation from the FReM NHS Scotland boards were not required to consolidate endowment funds within their 2010/11 financial statements. The Treasury and Scottish Government have delayed the consolidation of NHS Endowment Funds until financial year 2013/14.

Heritage assets

30. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. From 2011/12 the board will be required to separately disclose any heritage assets. The board should conduct a review to identify any such assets.

Audit appointment for 2011/12

31. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term; 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for NHSGGC will be Audit Scotland. As Audit Scotland has again been appointed as the auditor for NHSGGC, we look forward to continuing the good working relationship that exists and thank officers and members of the board and committees for their assistance during the last five years.

Financial position

- **32.** Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
- **33.** Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
- **34.** These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2011

- **35.** NHS Greater Glasgow and Clyde is required to work within the resource limits and cash requirement set by the SGHD. In 2010/11, the SGHD required NHS boards to differentiate between core and non-core expenditure for both revenue and capital.
- **36.** The board achieved all its financial targets in 2010/11 as outlined in Table 1 below:

Financial Target	Target	Actual	Variance	%
Revenue Resource				
Core	2,038,898	2,038,242	656	0.03%
Non Core	145,646	145,617	29	0.02%
Capital resource				
Core	146,835	146,834	1	0.00%
Non Core	15,800	15,800	-	
Cash position				
Cash requirement	2,425,000	2,424,542	458	0.02%

Table 1: 2010/11 Financial Targets Performance £'000s

- 37. The board has achieved a saving against its total Revenue Resource Limit of £0.685 million. Historically, boards have relied upon a measure of non recurring funding to achieve financial targets. However, with the tighter financial settlement compared to the past and reduced flexibility within expenditure budgets, there is less scope for reliance on non recurring income to achieve financial balance as NHS boards seek to rationalise their cost base.
- 38. In 2010/11 the board recorded an underlying deficit of £2 million which represented the excess of recurring expenditure commitments over recurring funding carried forward into 2011/12. This represents an additional cost challenge for the board to manage in 2011/12.

Financial sustainability and the 2011/12 budget

- 39. Uplifts in financial settlements have been reducing in recent years. In 2009/10 there was a general uplift of 3.15%, in 2010/11 the corresponding figure was 2.55% (inclusive of a supplementary uplift of 0.4%) while the funding uplift for 2011/12 is 2.7%. Given the current economic conditions and the impact of national spending priorities, there is also a risk that funding uplifts will be lower in future years. These pressures will have a significant impact on long term financial planning and in the control of pay and non pay costs
- 40. The board plans to break even in 2011/12 although it is facing significant cost pressures with projected expenditure growth of £81 million. This includes the full year impact of the increase on VAT (£6 million) and the board's share (£6 million) of sharply increased annual expenditure levels on the settlement of clinical / medical negligence claims across NHS Scotland. Other cost pressures include:
 - **Growth in prescribing costs:** The rate of growth in prescribing costs in 2011/12 is estimated to be 5.9% in primary care and 7.9% in acute services before any saving initiatives. For 2011/12 prescribing growth and inflation cost increases are likely to be in the order of £22.4 million. The board expects to achieve cost savings of £8.1 million in 2011/12 through a wide range of initiatives thereby containing net overall prescribing expenditure growth within £14.3 million. The scale of the cost savings and the wide range of initiatives which require to be successfully implemented present a high level of risk for the board.
 - **Pay growth:** The board anticipates that pay growth in 2011/12 will be £20 million as a result of the provision for a living wage, incremental pay progression, changes to National Insurance Contribution thresholds and Agenda for Change (AfC) low pay bands. The board has carried out extensive modelling of costs associated with AfC related pay progression. As a result the board expects that of total pay growth in 2011/12 some £13 million (or 65%) is attributable to the impact of AfC related incremental pay progression.
 - Energy costs: The board estimates that additional energy costs will amount to £6.5 million in 2011/12 due to the additional cost of advance purchase contracts and other regulator imposed charges. Fixed price contracts are in place for gas and electricity raw supply costs. However, recent substantial increases in regulator imposed charges mean that the board is still exposed to further increases of energy costs in 2011/12.

 Investment to secure delivery of access targets: The board incurs significant expenditure to achieve national access targets. In compiling its financial plan for 2011/12, the board has assumed that it will require to deploy an additional £2 million of recurring funding each year. This is in addition to the current level of earmarked funding provided by the SGHD to secure the achievement of national access targets on an on going basis. The key risk is that this provision may not be sufficient.

Financial planning to support priority setting and cost reductions

- **41.** The cost challenges facing the board, as outlined above, are significant and in some cases there is an element of uncertainty about further potential increases in costs. The board's financial plan is dependent on its ability to implement a comprehensive cost saving plan which will release £57 million of recurring cost savings in 2011/12.
- The board plans to achieve around £33 million (58%) of cost savings from the Acute Division, £7 million (12%) from CHCPs, £11 million (19%) from cross cutting exercises and £6 million (11%) from corporate services.
- **43.** The cost savings are to be achieved through a number of means, including service redesign, accelerated Acute Services Review implementation, more efficient procurement practices, productivity improvement, and a review of management and administration costs.
- 44. The delivery of the cost savings plan in 2011/12 will be more challenging than it has been in recent years. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Failure to achieve planned cost savings will impact on the board's ability to achieve a break even position.
- **45.** The cost saving plan is very challenging and there is a risk that some elements may not be achievable. It is therefore important that the board closely monitor costs in order to take any required remedial action through supplementary cost saving schemes.

Risk Area 3

Workforce planning

- 46. Staff costs account for approximately 60% of board expenditure and therefore any significant cost savings are likely to have some staffing impact. In 2010/11, the workforce reduced by 888 Full Time Equivalents (FTE) or 3% of the total workforce. The majority of this reduction was due to natural turnover and redeployment although £0.6 million was incurred a result of voluntary severance for 25 staff.
- 47. With a cost savings programme of £57 million for 2011/12 it is likely that the board will look for further savings in staff costs to reduce its cost base. The board plans to achieve the majority of manpower savings through natural wastage and redeployment. The board also recognise that these measures alone may not be sufficient to generate the planned savings. Therefore, a specific provision of approximately £6 million has been included within the board's 2011/12 financial plan to cover the cost of severance arrangements. The board has stated that, in so doing, it will comply with current local and national policies on workforce change.

48. It is important that the board retains the right staff with the right skills and has effective succession planning arrangements in place to maintain its capacity to deliver. This is particularly relevant as a number of senior staff and managers have recently left or may leave the organisation. These officials have extensive knowledge and experience of the health service which will be difficult to replace.

Risk Area 4

Outlook

Financial forecasts beyond 2011/12

- 49. The board's 2011/12 financial plan provides indicative figures for the level of cost savings needed in 2012/13 (£43.8 million) and 2013/14 (£45.5 million) in order to achieve financial balance. The majority of the cost savings in each year are expected to be generated from recurring sources. These levels of savings will be extremely challenging since, in the previous four years, many of the readily achievable savings initiatives will have been implemented.
- **50.** The financial plan assumes that future funding uplifts will be of the order of 1%. This combined with growing cost pressures, will make the delivery of cost savings even more important.

Risk Area 3

Significant financial risks

51. In 2010/11 the board's cost savings plan was pivotal to the achievement of financial balance. The plan set a cost savings target of £56.9 million which was achieved. The board's ability to achieve financial balance is again largely dependent on it successfully developing and implementing a comprehensive cost savings plan. For 2011/12, the board needs to achieve £57 million of recurring cost savings which is the equivalent to 3% of its Revenue Resource Limit. This is a significant challenge to the board particularly as this is the fourth consecutive year in which it is required to achieve a cost savings target exceeding £50 million to maintain a balanced financial position. The board's cost savings plan for 2011/12 includes 387 initiatives designed to reduce costs. The acute division alone will be responsible for delivering 250 of these initiatives and generating savings of £32.9 million (58% of the total).

Risk Area 3

Pension costs

52. Following the advice of the Scottish Government, Note 24: Pension Costs reflects a net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation. Note 1 of the accounts, Accounting Policies, states that the most recent actuarial valuation was for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every four years, a more up to date valuation would have been expected to have been reflected in the 2010/11 accounts.

53. While there was a more recent actuarial valuation carried out at 31 March 2008, the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme, publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the Scheme.

Governance and accountability

- 54. The three fundamental principles of corporate governance openness, integrity and accountability apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
- 55. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
- **56.** Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
- 57. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

58. The corporate governance framework within NHSGGC is centred on the board which is supported by a number of standing committees that are accountable to it.

Audit	Staff Governance
Clinical Governance	Involving People
Performance Review Group	Pharmacy Practices Committee
Research Ethics Service Governance	Area Clinical Forum
Discipline (for primary care contractors)	Partnership Committees

59. The following paragraphs provide a brief comment on some of the main standing committees of the board including their roles and responsibilities.

Audit Committee: Its purpose is to assist the board to deliver its responsibilities for the conduct of its business, including the stewardship of funds under its control. In particular, the Committee provides assurance to the board that an appropriate system of internal control has been in place throughout the year. The Committee is attended by both internal and external audit while, senior officials are invited to attend to respond to auditors' reports.

- The Clinical Governance Committee: It assists the board in delivering its statutory responsibility for the provision of quality healthcare. In particular, the Committee seeks to give assurance to the Board that appropriate systems are in place, which ensure that clinical governance and clinical risk management arrangements are working effectively to safeguard and improve the quality of clinical care.
- Staff Governance Committee: Its role is to provide assurance to the Board that NHS Greater Glasgow and Clyde meets its obligations in relation to staff governance under the National Health Service Reform (Scotland) Act 2004 and the Staff Governance Standard. In particular, the Committee seeks to ensure that staff governance mechanisms are in place that establish responsibility for performance against the Staff Governance Standard and ensure progress towards its achievement.
- **Performance Review Group (PRG):** The PRG delegated responsibility from the NHS Board to monitor organisational performance, resource allocation and utilisation and the implementation of NHS Board agreed strategies. The PRG also has delegated responsibility for property matters and ensures that there is a coordinated overview of performance across all domains of the Performance Assessment Framework.
- **The Involving People Committee:** This Committee has been established to ensure that the NHS Board discharges its legal obligation to involve, engage and consult patients, the public and communities in the planning and development of services and in the decision-making process about the future pattern of services.
- **60.** Overall, the board's governance arrangements in 2010/11 were soundly based and operated effectively.

Patient safety and clinical governance

- 61. In 2010/11, the board continued to work with NHS Quality Improvement Scotland (NHSQIS) to support the implementation of the clinical governance and risk management standards to ensure that clinical governance principles are embedded in local practice. This will be continued with the successor organisation Healthcare Improvement Scotland.
- 62. NHSGGC is continuing to make progress in implementing the Scottish Patient Safety Programme (SPSP) which was launched in 2007. The board aims to achieve full implementation of the core programme in Acute Services by December 2012. The core programme includes improved staff capability in all wards and creation of reliable processes for every relevant element in every ward.
- **63.** The Healthcare Environment Inspectorate (HEI) carried out a number of planned and unannounced inspections visits to several hospital sites within the board during 2010/11

including Glasgow Royal Infirmary and Inverclyde Royal Hospital. Overall, the results of these inspections were satisfactory and action plans have been put in place to address any issues raised by the HEI. In addition, a HEI Steering Group has been established to ensure that actions and learning points from each inspection are cascaded to all hospitals within NHSGGC.

64. An independent public inquiry ordered by the Cabinet Secretary into the C.Diff outbreak at the Vale of Leven commenced in June 2010. This is not due to report until September 2012. The Medical Director has advised that NHSGGC now had one of the lowest incidences of C.Diff in Scotland.

Partnership Working

- 65. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. The board has undertaken significant work in partnership with local authorities in establishing Community Health Care Partnerships (CHCPs) and Community Health Partnerships (CHPs).
- 66. A CHCP involves the local authority and NHS board working closely together to provide integrated social care and public health services in a local setting to meet the needs of the local population. On the other hand a CHP is a health-led partnership model.
- 67. In 2010/11 partnership working with local authorities underwent significant changes. The two existing CHPs which had been created in the Inverclyde and West Dunbartonshire areas became CHCPs with a more integrated involvement with the Councils' social work services.
- 68. The other main change, however, involved the dissolution of the five City of Glasgow CHCPs and their replacement by a single health-led CHP model from 1 November 2010. The revised arrangements include the creation of a single NHS CHP with a substructure of three sectors North-East, North-West and South. The CHP is governed by a single Committee chaired by a NHS non Executive and includes Glasgow City councillors representing the three sectors.
- 69. Our national report on Community Health Partnerships (June 2011) found some local examples where the board's partnership arrangements were helping to improve community based services. But it did draw attention in a case study to the particular problems of partnership working which emerged in relation to the Glasgow CHCPs. Overall, it concluded that across Scotland existing arrangements are not yet demonstrating an integrated health and social care service that clearly improves people's health and quality of life.

Internal control

70. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

- 71. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2010/11 PricewaterhouseCoopers, the board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant weaknesses that required specific mention in the Statement on Internal Control.
- 72. As part of our audit we reviewed the high level controls in a number of NHS Greater Glasgow and Clyde systems that impact on the financial statements. This audit work covered a number of areas including trade receivables, procurement and general ledger. Our overall conclusion was that NHS Greater Glasgow and Clyde had adequate systems of internal control in place in 2010/11. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.

Internal Audit

- 73. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of the internal audit function (provided by PricewaterhouseCoopers) in November 2010 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place.
- 74. We placed reliance on internal audit work in a number of areas including trade payables, bank reconciliations, Family Health Services expenditure and capital accounting. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Statement on internal control

- 75. The Statement on Internal Control (SIC) provided by the NHS Greater Glasgow and Clyde Accountable Officer reflected the main findings from both external and internal audit work. This SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.
- 76. The SIC also drew attention to significant progress in the area of Information Governance. A complete set of Information Governance and IT Security Policies is now in place, along with a programme to develop staff awareness of these policies, supported by the development of a number of e-learning training modules. It also refers to the NHS Board's commitment to best value principles, with processes in place to ensure that it continuously focuses on improving performance. In particular through the on going developments within the Acute Services Review, the board aims to be able to deliver more efficient and effective delivery of patient care.

Review of staff earning over £100,000 per annum

77. The Cabinet secretary had asked NHS boards for assurance that earnings paid to those staff earning over £100,000 complied with relevant policies and guidance. Auditors were also requested to sample check earnings over £100,000 to give additional assurance on the validity of the figures. We did not identify any matters that in principle indicated that the board had been in breach of relevant national policies and guidance relating to pay matters. We reported our findings to the Chairman of the board on 29 March 2011 to enable him to reply to the Cabinet Secretary by the required date of 31 March 2011.

ICT data handling and security

- 78. During 2010/11, the board have continued to progress the area of Information Governance. The Information Commissioners Office (ICO) carried out a review of the board's data protection compliance, focusing on five areas: Governance, Training & Awareness, Records Management, Subject Access Requests and IT Security. The board received an overall grading of 'reasonable assurance' from the ICO who identified areas for improvement as 'low priority'.
- **79.** While progress has been made NHSGGC recognises the importance of staff awareness of data handling and security and continues to give this area a high profile. The key NHSGGC policies and strategies on data security have also been reviewed and revised, while a single information strategy is in place.
- 80. Furthermore, Internal Audit reviewed information governance as part of their programme of work in 2010/11. They concluded that progress has been made in recent years although there is scope for further improvement.

ICT Project Management

- 81. In 2010/11 we carried out a review of ICT project management arrangements to assess whether they were consistent with good practice and to identify areas of improvement. The review focused on two specific projects - Strathclyde Electronic Renal Patient Record (SERPR), and Chemotherapy Electronic Prescribing and Administration System (CEPAS). Our findings have been reported in draft and a response and completed action plan is due from management in early course.
- 82. The main findings arising from our review include the following:
 - the implementation of the CEPAS and SERPR projects took longer than anticipated.
 - the CEPAS project was affected by communication difficulties between the implementation team and software development team. Also, Issue and Risk Logs were not shared between the two teams.
 - in contrast good communication within the SERPR project allowed major design difficulties to be addressed effectively.
 - the SERPR project lead team received the British Computer Society (BCS) award as recognition of the best NHS Scotland IT Service Delivery Team.

83. The report also highlighted that post implementation reviews of both projects should be used to identify areas of good practice for wider dissemination and also 'lessons learned' which can be used to make improvements in project management.

Prevention and detection of fraud and irregularities

- **84.** Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
- 85. NHS Greater Glasgow and Clyde has a comprehensive range of measures in place to prevent and detect fraud including Standing Financial Instructions, a Code of Conduct for Staff and policies covering 'whistleblowing' and fraud. The board has also entered into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS).
- 86. The board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. Additionally, the board has agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2010/11 these checks included verification against patient records, visits to practices and examination of patients.

NFI in Scotland

- 87. In 2010/11 NHS Greater Glasgow and Clyde took part in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
- **88.** It allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payment and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
- 89. As part of our local audit work we monitor the board's approach to the NFI. The board is proactive in preventing and detecting fraud including participation in the NFI. The board's Financial Governance and Audit Manager and his team systematically review NFI data matches to identify areas for further investigation. In addition, the Audit Committee and Audit Support Groups receive regular reports on anti-fraud activities including updates on NFI.
- **90.** The Audit Scotland report 'The National Fraud Initiative in Scotland Making an impact (May 2010)' highlighted that much of the information used in the last NFI round was collected before the recession really took hold. An economic downturn is commonly linked to a heightened risk of fraud, and public bodies need to remain vigilant.

91. The current NFI round is being carried out under new powers approved by the Scottish Parliament in terms of the Public Finance and Accountability (Scotland) Act (as amended) and which came into force from 20 December 2010. These provide for more collaboration with other UK agencies to detect 'cross border' fraud, extend the range of public sector bodies involved, and allow data matching to be used to detect other crime as well as fraud.

Standards of conduct and arrangements for the prevention / detection of bribery and corruption

- **92.** Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. A single Code of Conduct for Staff was launched in early 2009, taking into account the existing national guidance on the Standards of Business Conduct, the Whistleblowing Policy and the Fraud Policy.
- 93. The board's Code of Conduct for Staff and on-line registration arrangements are currently under review with the need to ensure that it reflects the requirements of the new Bribery Act 2010 which is to be implemented later in 2011. We have concluded that the arrangements in NHS Greater Glasgow and Clyde are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

Processes and committees

- **94.** With the publication last year of the Quality Strategy, the board has been considering its governance structure with a view to introducing an integrated approach to governance across clinical (including quality), performance management (i.e. against the HEAT targets, including finance), staff and involving and engaging people in services and developments.
- **95.** In April 2011, the board approved changes to its standing committee arrangements by establishing a new integrated Governance Committee i.e. the Quality and Performance Committee. It replaces the Performance Review Group, Health & Clinical Governance Committee and Involving People Committee.
- **96.** The new committee has been given responsibility for quality, patient safety, clinical governance, financial monitoring, performance monitoring, workforce planning and involving people/patients. This streamlining of governance arrangements is designed to improve the review and scrutiny of governance arrangements. However, its responsibilities are extensive and challenging and it will be important to carry out a post implementation review to assess the effectiveness of the new committee.

Partnerships

97. During 2010/11 the board introduced revised arrangements for the delivery of NHS primary care and community care services within the Glasgow City boundary. There is a risk that the new partnership arrangements may not provide the expected benefits or improvements to the quality of services provided and the board will require to maintain its focus on this area.

Risk Area 5

Best Value, use of resources and performance

- **98.** Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
- **99.** The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
- 100. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
- 101. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.
- **102.** During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
- 103. This section includes a commentary on the Best Value / performance management arrangements within NHSGGC. We also note any headline performance outcomes / measures used by NHSGGC and comment on any relevant national reports and the board's response to these.

Management arrangements

Best Value

- 104. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
- **105.** The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

- **106.** The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
 - vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting).
- 107. NHSGGC is committed to best value and has arrangements in place to help ensure continuing performance improvement. The board also has arrangements in place to develop systems in response to relevant reviews and developments, including consideration of Audit Scotland national reports.
- 108. In addition the board conducts bi-annual organisational reviews for each business area, with action plans to address any recommendations for improvements. The board is also subject to an annual review process by the Scottish Government Health Directorates, again with plans developed to address any issues raised.

Service Redesign

- **109.** Through its Acute Services Review (ASR), the board is committed to developing a sustainable healthcare service to serve local communities and address the specific issues of health inequality and accessibility. This will result in the rationalisation and reconfiguration of acute services across the board area.
- 110. The ASR has already delivered a number of key developments, including the two new Ambulatory Care Hospitals (ACHs) which opened in the spring of 2009 and the Beatson Oncology Centre, which was officially opened in February 2008.
- 111. During 2010/11 the ASR has delivered further developments, including the transfer of casualty and inpatient services at Stobhill hospital to Glasgow Royal Infirmary and the construction of a new 60 bedded inpatient unit at Stobhill hospital. In addition there has been the centralisation of vascular, renal and urology services in preparation of services transferring to the new South Glasgow Hospital in 2015.
- 112. The final stage of the ASR is the re-development at the Southern General hospital site which represents an investment of £842 million to be met from public funds. The new facilities will include a specialist adult acute hospital, a children's hospital and laboratory facilities. The completion date for this development is during 2015 and SGHD remains committed to funding the cost of this project.

Performance management

- 113. The NHS Scotland Quality Strategy, launched in May 2010, is underpinned by the three Healthcare Quality Ambitions: person centred, safe and clinically effective. In order to implement the Quality Strategy the board has pulled together its existing quality and improvement activities and initiatives into one overall strategy. This has resulted in the following three strand approach to improving quality:
 - Quality Policy Development Group
 - specific quality programmes and initiatives
 - outcomes focused planning and performance arrangements
- **114.** NHSGGC has a well established performance management framework in place for monitoring and reporting on performance. The main elements of this framework are:
 - bi-annual organisational performance reviews for all activities within NHSGGC, covering performance against development plans.
 - the Acute Division's balanced scorecard.
 - the Mental Health Partnership's performance monitoring framework.
 - performance reporting to the corporate management team.
 - reports on waiting times and access targets at each meeting of the CMT.
 - quarterly reporting to the Performance Review Group on HEAT targets.
 - individual performance appraisal of all Directors and senior managers.
- **115.** In addition, the board's policy and planning frameworks, which inform the annual planning and performance cycle, include a quality framework that sets out the required outcomes and actions to deliver a quality service. These policy and planning frameworks are used to establish the annual development plans produced by each part of the organisation.
- **116.** NHSGGC is subject to an annual review which is chaired by the Cabinet Secretary for Health and Wellbeing and held in public. As part of the review the Cabinet Secretary met with the Area Clinical Forum and the Area Partnership Forum. The annual review highlights good performance and identifies areas where specific action would be required to improve health and treatment.

People Management

117. As with other health boards in Scotland, NHSGGC faces a major challenge in achieving the national sickness absence target of 4%. The current sickness absence rate for the board is 4.69% which although above target is an improvement on last year when the rate was 4.75%. Sickness absence is a key focus of performance reviews and each area has a detailed plan in place to reduce absence levels.

118. It is crucial for NHSGGC to have effective workforce planning arrangements in place in order to secure best value and meet challenging performance targets. The board continues to develop its planning arrangements, including corporate guidance, to help ensure workforce plans are properly aligned to service and financial plans.

Information management – follow-up audit

- 119. As part of our 2010/11 audit we conducted a follow-up audit of our 2009 review of use of resources in relation to information management at NHSGGC which was based on one of Audit Scotland's Best Value toolkits. The follow-up audit focused on five key areas of the original review information governance and leadership; information for decision making; service delivery; compliance and control and knowledge management. Management were asked to carry out a self-assessment using the original toolkit, highlighting areas of progress and providing documentary evidence in support of any progress made.
- 120. Overall, we found that NHSGGC has made progress since our last review in September 2009. Better practices status (as defined in our Best Value toolkit) has been maintained in four of the key areas of information management. In relation to knowledge management, NHSGGC has progressed from basic to better practices.

Improving public sector purchasing – follow-up audit

- 121. Improving Public Sector Purchasing A follow-up audit was carried out in 2010/11 to assess whether local procurement arrangements in NHSGGC were consistent with good practice and addressed the key issues identified in Audit Scotland's national performance report 'Improving public sector purchasing (July 2009)'.
- 122. In carrying out the study we used a checklist based on the key issues identified in the national report. This was issued to the Head of Procurement to carry out a self-assessment of performance. The completed checklist and supporting evidence were subsequently reviewed by us. Our findings are positive and indicate that procurement is well managed within NHSGGC. The board's Performance Capacity Assessment (PCA) rose from 78% to 85%. These results confirm that NHSGGC's procurement department is one of the better performing teams within the health service although there are some areas where improvements can be made (e.g. key purchasing processes and systems). Management have produced a detailed response and action plan to address the areas of improvement identified in the PCA.

Use of consultancy services

123. As part of our review of the board's performance arrangements we looked at the arrangements for use of consultants. We have issued a draft report to management for comment and confirmation of factual accuracy. Our preliminary findings indicate that the board follows good practice in the use of consultants at project level. However, arrangements for monitoring and overseeing the use of consultants could be further developed at a corporate level.

Overview of performance in 2010/11

- 124. The board receives regular reports on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards). In March 2011 the board reported success in achieving most of the challenging targets relating to inpatients; outpatients; diagnostics, and cardiac intervention. In most areas performance continues to improve.
- 125. Examples where 2010/11 performance has met or exceeded the targets include inequalities targeted cardiovascular health checks, all cancer treatments within 31 days, 48 hour access to appropriate GP practice team and balance of care for older people with complex care needs. Also, the board has made significant efforts with its local authority partners to ensure that the delayed discharge target is achieved.
- 126. Some targets were not fully achieved. These include child healthy weight interventions, electronic management of referrals, A&E waits to be a maximum of four hours, did not attend rates for new outpatient appointments and sickness absence rates. In each case management have established actions to improve performance.

National performance reports

127. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports. These reports are considered in detail by the board members and where appropriate relevant senior managers are invited to outline the impact of the national report and indicate how the board will address any recommendations made. Reports in the last year that have been considered by the board include:

Table 2: A selection of National performance reports 2010/11

 Using locum doctors in hospitals (June 2010) 	 Management of the Scottish Government's capital investment programme (Jan 2011)
Emergency departments (Aug 2010)	 Community Health Partnerships (June 2011)
Role of boards (Dec 2010)	
Source: www.audit-scotland.gov.uk	

Source: www.audit-scotland.gov.uk

Using locum doctors in hospitals

128. Scottish health boards spend around £47 million a year on locum doctors in hospitals. This spending has doubled in the past decade but, in many cases, health boards are not always clear about why locum doctors are being hired and how long they are being used.

- 129. The report also says the NHS needs to get better at managing the potential risks to patient safety of using locum doctors. This is particularly important for locum doctors who are hired through private agencies as they may be unknown to the board and unfamiliar with the hospital in which they are working. Health boards across Scotland need to be consistent in the way they screen and induct locum doctors and the way they manage their performance. There are no formal systems for sharing information about individual locum doctors between boards.
- **130.** A new National Locum Framework was established in June 2010. However NHSGGC still relies on its previous supplier to fill a significant number of its requests. In response to the national report the board is reviewing arrangements for providing appropriate and effective provision of medical locums.

Emergency departments

- 131. Patient satisfaction with emergency care services is high. However there is widespread variation in the services provided at hospital emergency departments and a lack of clarity about where best to treat different patients. Attendances, costs and workforce pressures are rising, and the NHS in Scotland can do more to manage these services more efficiently. The report highlights that attempts to reduce attendances at emergency departments are not underpinned by an assessment of what works or how much it would cost to have people treated in another setting, such as a minor injuries clinic, where this is appropriate. Closer working across the whole health and social care system is needed to make further improvements.
- 132. The board has an Unscheduled Care programme in place which looks at measuring, reviewing and improving the performance of the A&E service. However, in light of the national report's findings the board has identified a number of specific improvement actions. These actions included the establishment of an A&E Attendance Steering Group and a strong focus on increasing the attendance at minor injury units by patients who would normally attend A&E.

Role of boards

- 133. Public bodies and their boards have evolved over time. There is a great variety in the size and make-up of boards and the roles that they have. Accountability can be complex, with chief executives and boards reporting in different ways to the Scottish Government, ministers and the Scottish Parliament. This risks causing confusion about who leads an organisation and is responsible for its decisions.
- 134. The key messages of this national report were included in a board session as part of a wider discussion on improving the board's corporate governance arrangements. This resulted in a number of agreed improvement actions.

Management of the Scottish Government's capital investment programme

135. The Scottish Government has improved its scrutiny of its programme in recent years. However, improvements have been slow in the information about the status and performance of individual projects, which would help with management of the programme. Information about whether capital projects were on time and within budget is not always available. Where information is available, it shows that cost estimating has improved in recent years. Many projects still run late, although delays tend to be at the early stages before contracts are signed and are less likely to affect costs.

136. The largest capital project within NHSGGC is the new Southern General Hospital and Laboratories project at an estimated cost of £842 million. Specific governance arrangements have been established to oversee the project, including the Acute Services Strategy Board (ASSB). The ASSB regularly receives information on progress and performance against budget.

Community Health Partnerships

- 137. The review looked at the impact community health partnerships (CHPs) have in improving people's health and quality of life by joining up health and social care services and moving more services from hospitals into the community. It was found that few CHPs have the authority to influence how resources are used in their area.
- 138. A joint approach involving all partners is needed to make the significant changes needed to tackle Scotland's complex and long-standing health and social care issues. The report also calls for a fundamental review of partnership arrangements to ensure they focus on meeting individuals' needs. The report highlights examples of good practice where CHPs are providing enhanced community-based services. But these local initiatives are small scale and there is limited evidence so far of wide-spread sustained improvements. The report highlighted the problems of partnership working which emerged in relation to the Glasgow CHCPs.
- 139. Publication of the national report on Community Health Partnerships (June 2011) was delayed because of the moratorium on reporting due to the Scottish Parliament general election in May 2011. This report will be discussed at a future Audit Committee.

Outlook

Best Value

140. During 2011/12 the board intends to establish a detailed framework to demonstrate how the board implements each of the seven themes identified in the Scottish Government's revised guidance on Best Value.

Service Redesign

141. The current ASR will conclude during 2015 with the completion of the new Southern General Hospital project. The board has established a small development group with the aim of developing a single framework for a revised acute services strategy that focuses on shifting the balance of care and re-assesses the use of new estate against updated performance and clinical benchmarks.

Performance

- 142. A set of quality indicators will be developed to ensure that quality has a high profile in the board's new governance and committee arrangements, with regular reporting on key indicators.
- 143. Over recent years the board has invested substantial resources in order to achieve challenging performance targets set by the Scottish Government. The board's 2011/12 Financial Plan assumes that it will require to deploy an additional £2 million funding to meet the national access targets. The significant financial challenges that will be faced in 2011/12 and beyond may force the board to prioritise its resources. This will make maintaining or improving performance even more challenging.

Risk Area 6

People Management

144. As with other NHS Scotland bodies, NHSGGC will find it a challenge to achieve the sickness absence target of 4% during 2011/12.

Risk Area 7

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	30 November 2010	25 January 2011
Annual Audit Plan	18 January 2011	25 January 2011
Review of staff earning over £100,000 p.a.	29 March 2011	29 March 2011
Internal Controls Management Letter	26 May 2011	7 June 2011
Report to Audit Committee in terms of ISA 260	17 June 2011	21 June 2011
Independent auditor's report on the financial statements	17 June 2011	21 June 2011
Best Value: Information Management – Follow-up audit	20 May 2011	25 October 2011
Use of Consultancy services – Follow-up audit	18 July 2011 (Draft)	25 October 2011
ICT – Programme Management Review	23 June 2011 (Draft)	25 October 2011
Improving Public Sector Purchasing – Follow-up audit	25 July 2011	25 October 2011
Annual report to members and AGS	26 July 2011	25 October 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	21	Equal Pay NHS Greater Glasgow and Clyde as with other boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the board's financial position.	Scotland by the Equal Pay Unit and participate fully in this process. If and when the	Director of Human Resources	On going
2	22	Disposal of Woodilee Site The board's balance sheet includes a debtor balance of £21.5 million in respect of the disposal of the Woodilee Hospital site. There is a risk that, given the current economic climate and the reduction in land values that the income due from the site may not be fully realised.	There is a legal payment structure in place with the consortium of developers and to date, a number of payments have been received by the Board in respect of the Woodilee site.	Director of Finance	On going
3	45 50 51	2011/12 Savings Target The board faces a wide range of financial challenges and there is a risk that it may not be able to make its savings target in 2011/12. The longer term financial plan remains at risk of not	The Board reports to SGHD monthly on the progress of the cost savings plan. The Corporate Management Team (CMT) meets monthly to review the plan to ensure that schemes remain on target. If existing schemes fall short of their planned savings, the CMT will	Director of Finance	On going

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		being affordable and is a significant challenge to the board moving forward.	agree supplementary schemes and/or additional management action to bring existing schemes back on track. The Board recognises that achievement of its cost savings target is crucial to the affordability of the financial plan. Financial Monitoring Reports are presented to meetings of the NHS Board and the Quality and Performance Committee.		
4	48	Workforce Planning It is likely that the board will require to reduce staff numbers in order to achieve its 2011/12 cost savings plan. There is a risk that this may result in key personnel leaving the board with a consequent loss of essential knowledge and experience.	The implementation of the Board's Workforce Plan will continue to be monitored by the Director of HR on a monthly basis ensuring that while the proposed reductions in workforce headcount and whole time equivalent are achieved, key vacancies are filled and staff are appropriately redeployed to maintain quality of services.	Director of Human Resources	On going
5	97	Partnerships During 2010/11 the board introduced revised arrangements for the delivery of NHS primary care and community care services within the Glasgow City boundary. The risk is that that these new partnership arrangements may take	The new CHP was established on November 2010 with a new governance structure including the CHP Committee which oversees the operation and performance of the CHP. A Joint Partnership Board has also been established with Glasgow City Council to oversee the budget and service planning process for joint services within	Director, Glasgow City CHP	On going

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		some time and development before they become effective.	the City. A number of joint planning groups have been established as part of the joint planning structure to ensure the effective development and implementation of joint strategies. An appointments process was quickly established for the senior management team in the CHP and the three sectors to ensure the continued delivery quality and quantity of patient care services and the successful disengagement of the joint arrangements with Glasgow City Council. The CHP has put in place a series of governance arrangements including prescribing, clinical governance, staff partnership and is working with Glasgow City Council to develop new policies and ways of working.		
6	143	Performance Targets The board's 2011/12 Financial Plan assumes that it will require to deploy an additional £2 million funding to meet the national access targets. There is a risk that the additional funding will be insufficient to meet the targets. There is also a	The Acute Division is sighted on this risk; a robust framework has been deployed across the Division, headed by the Chief Operating Officer, where capacity planning methodology will be central to our decision making re resource allocation. Significant effort is being deployed to achieve performance improvement		On going

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		risk that SGHD funding for access targets will reduced from the 2010/11 level.	through productivity and efficiency gains, as well as reduce duplication and waste. Particular emphasis has been placed on system oversight, and bringing clarity to the 18 week definition. Waiting Times and Access Targets Reports are received by the Corporate Management Team and by the NHS Board.		
7	144	Sickness Absence As with other NHS Scotland bodies, NHSGGC will find it a challenge to achieve the sickness absence target of 4%.	The Board will continue to implement its absence management policy, and staff health action plan, to seek to continue to reduce sickness absence. This will be monitored on a monthly basis and will continue to be a component of the Board's performance management process.	Director of Human Resources	On going

NHS Greater Glasgow & Clyde Annual report on the 2011/12 audit



Prepared for NHS Greater Glasgow & Clyde and the Auditor General for Scotland July 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2011/12

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2011/12 we assessed the key strategic and financial risks being faced by NHS Greater Glasgow & Clyde. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified audit report on the financial statements of NHS Greater Glasgow & Clyde for 2011/12. We also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

The board achieved all of its financial targets in 2011/12 and returned a saving against its total Revenue Resource Limit of £0.302 million as at 31 March 2012. In 2011/12 the board achieved savings of £57 million which was in line with the planned savings target; all the savings were achieved on a recurring basis.

Overall, we have concluded that the Board's governance arrangements in 2011/12 were soundly based and operated effectively. In April 2011 the Board approved the establishment of a Quality and Performance Committee (Q&P) which replaced several committees. The aim of this new committee is to ensure there is an integrated approach to governance and performance across a range of areas including clinical quality, patient safety, finance and performance. While the agenda is widely based and covers many areas, it has proved to be effective so far. At the July Q&P, it was agreed to allow the committee a further year to bed in and to review performance in 2013.

The board has a well developed framework in place for monitoring and reporting performance. In 2011/12 the board has met or exceeded a number of challenging performance targets set by the Scottish Government and, in a number of areas, performance continues to improve. However some performance targets were not fully achieved and in those cases the board has established actions to improve performance.

The board has arrangements in place to consider national performance reports issued by Audit Scotland, whereby local performance is compared to the national findings outlined in the report. Furthermore, as stated in the governance statement, the board produces an annual best value assurance report which provides overt assurance that arrangements are in place to secure best value. We have however made some recommendations to further enhance procedures.

Outlook

The position going forward is becoming even more challenging than previous years with limited increases in funding, increasing cost pressures in respect of prescribing growth and utility costs, and challenging savings targets. To achieve continuing financial balance the board will require to deliver £59 million of recurring cost savings in 2012/13. Expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

The significant financial challenges that the board will face in 2012/13 and beyond will require the board to prioritise further its use of resources. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

The completion of the new South Glasgow Hospitals in 2015 and the continued implementation of redesign strategies will require changes to be made in the numbers and skill mix across all professions. It is essential that effective workforce planning is in place which takes account of this and any future reconfiguration of services and is applied in such a way to ensure that staff morale is not adversely affected.

Introduction

- 1. This report is the summary of our findings arising from the 2011/12 audit of NHS Greater Glasgow & Clyde (NHSGGC). The nature and scope of the audit were outlined in the Audit Plan presented to the Audit Committee in January 2012 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the public sector audit model.
- A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHSGGC.
- 3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that NHSGGC understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
- 4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the Audit Committee, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
- 5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's financial performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.
- 6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

Financial statements

- 7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
- 8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
- 9. Auditors review and report on, as appropriate, other information published with the financial statements, including the Directors' Report and Operating and Financial review, governance statement and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

- **10.** We have given an unqualified opinion that the financial statements of NHS Greater Glasgow and Clyde for 2011/12 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
- 11. NHSGGC is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirm that the financial statements have been properly prepared in accordance with the FReM.
- **12.** We have also reviewed the board's governance statement and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and income shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Accounting issues

 As agreed, the unaudited accounts were provided to us on 14 May 2012 supported by a comprehensive working papers package. The good standard of the supporting papers and the timely responses from NHSGGC staff allowed us to conclude our audit within the agreed timetable and we were able to provide our proposed opinion to the Audit Committee on 19 June 2012 as outlined in our Annual Audit Plan.

- **15.** Several modifications were required to be made as a result of the audit, all of which were adjusted for.
- **16.** As required by auditing standards we reported to the Audit Committee on 19 June 2012 the main issues arising from our audit of the financial statements. The main points were as follows:

Equal pay claims

- 17. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and as at 31 March 2012, 4,159 of these relate to NHSGGC. These have been referred for the attention of the NHS Scotland Central Legal Office (CLO) to co-ordinate the legal response to this issue.
- 18. Developments over the past year have slowed the progress of claims and led to a reduction of claims going forward. The CLO have stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or any financial impact they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position. We are aware that a test case which was concluded in favour of NHSGGC is currently under appeal.
- 19. Discussions have been held between Audit Scotland, its partner firms, the Scottish Government, the CLO and board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2011/12. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2011/12 financial statements of affected NHS boards.
- 20. We continue to strongly encourage NHSGGC management, working with Scottish Government Health and Social Care Directorates, the CLO and other NHS boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England. There is a risk that these liabilities could have an impact on the board's financial position.

Action point 1

Trades payable

21. Following discussion with management on the adequacy of the accrual in respect of untaken holiday pay, the basis was reviewed and amended to better reflect the actual position at the year end. We are satisfied that the revised figure is a fair reflection of the estimated liability.

Disposal of Woodilee Hospital

22. In March 2007 the board agreed to the sale of the Woodilee Hospital site to a consortium of developers for a total of £32.5 million. Instalments of £8 million, £3 million and £2.5 million were received by the board in March 2010, March 2011 and March 2012 respectively. A revised payment structure for the remaining £19 million was agreed in March 2012 for full recovery in instalments by November 2016. Officers advise that the board's contract with the consortium stipulates that the developers are jointly and severally liable for their obligations. Furthermore, standard securities over the land have been obtained from the developers and if all default on their obligations then the board could exercise the standard securities. The Accountable Officer has provided assurance that the proceeds due from Woodilee, in his judgement, will be fully recovered. However, there remains a risk that, given the current economic climate and the reduction in land values, the income due from the site may not be fully realised

Action point 2

Allocations for specific projects

- 23. During 2011/12 NHSGGC received funding from the Scottish Government Health and Social Care Directorates (SGHSCD) for specific projects. Due to the nature of those projects, not all of the funding had been spent by year end. In discussion with management it was agreed to reverse expenditure of £11.7 million.
- 24. We have discussed with the Director of Finance the need to review this area in conjunction with the SGHSCD to ensure that funding for special projects better reflects the planned phasing of expenditure. A similar point was raised in our 2010/11 annual audit report.

Action point 3

Trades receivables

25. Included within trades receivables are outstanding sundry debtor balances of £41.4 million against which there is a bad debt provision of £1.1 million. However of this £41.4 million, £13.6 million is in respect of debts older than 90 days. We have been advised that it is policy to exclude all public bodies and other healthcare providers and to provide 100% for the remaining debts greater than 90 days. Assurances have been provided that adequate provision has been made in the 2011/12 financial statements against all amounts owing to the Board, although management have agreed to review the level of bad debt provision in 2012/13 to ensure it accurately reflects the level of non-recoverable income.

Action point 4

Other matters

Prior year adjustments: donated assets and transfer of prisoner healthcare

26. The 2011/12 FReM required boards to change the accounting treatment for donated assets which led to the removal of the donated asset reserve from the accounts. As this requirement

was a change in accounting policy a prior year adjustment was reflected in the financial statements of NHSGGC.

- 27. In addition, responsibility for the healthcare of prisoners transferred from the Scottish Prison Service to health boards on 1 November 2011. The transfer was a 'machinery of government' change, which the FReM requires to be accounted for using merger accounting. This entailed prior year comparatives being restated to achieve uniformity of accounting policies.
- **28.** The net effect of these adjustments in 2010/11 was to increase net operating costs by £3.46 million and to reduce net liabilities by £0.398 million.

Heritage assets

29. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. From 2011/12 boards were required to separately disclose any heritage assets. We have been advised by management that as they do not consider there to be any heritage assets, no review was undertaken. Whilst we do not consider heritage assets to be material to the accounts, we have recommended that a formal review of the existence of such assets be undertaken so that the board fulfils its stewardship responsibilities and follow the principles of FRS 30 Heritage assets.

Action point 5

Outlook

Endowments

30. As a result of an agreed derogation from the FReM NHS Scotland boards were not required to consolidate endowment funds within their 2011/12 financial statements, in terms of *IAS 27, Consolidated and Separate Financial Statements*. HM Treasury and Scottish Government have delayed the consolidation of NHS Endowment Funds into board accounts until financial year 2013/14.

Financial position

- **31.** Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
- **32.** Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
- **33.** These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2012

- 34. NHS Greater Glasgow and Clyde is required to work within the resource limits and cash requirement set by the Scottish Government Health and Social Care Directorates (SGHSCD). The SGHSCD has required NHS boards to differentiate between core and non-core expenditure for both revenue and capital.
- **35.** In 2011/12, the board overspent its non-core funding target and underspent its core funding target, achieving its target overall (see Table 1 below):

Financial Target	Target	Actual	Variance
Revenue resource			
Core	2,085,292	2,084,603	1289
Non Core	152,091	153,078	(987)
Net revenue resource outturn			302
Capital resource			
Core	203,931	203,913	18
Non Core	0	0	0
Cash position			
Cash requirement	2,432,000	2,431,306	694

Table 1: 2011/12 Financial Targets Performance £'000s

36. The board has achieved a cumulative surplus of £0.302 million compared to a planned break even position. NHSGGC's 2011/12 financial plan included a £57 million savings target to achieve financial balance. By the end of 2011/12, all required savings were achieved on a recurring basis, which places the board in a good position going forward.

Budgetary control

37. The financial position was regularly monitored and reported to the board. While overspends were reported during the year, rising to £4 million in August 2011, a break even position was anticipated by the year end. The deficit decreased as the planned savings were realised. Table 2 below demonstrates the financial performance against break even and the achievement of savings over the year.

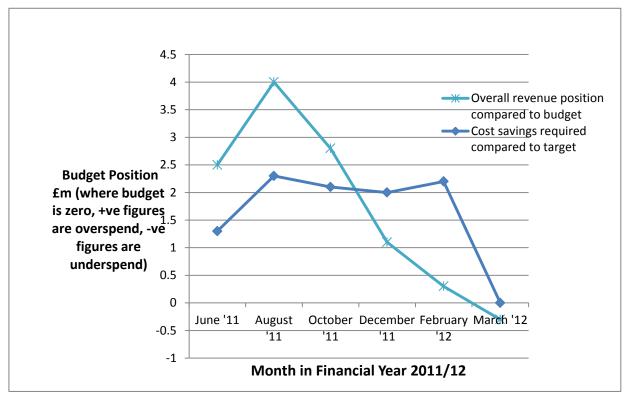


Table 2: NHSGCC Financial Position

Capital Resource Limit (CRL)

- 38. Capital expenditure during the year amounted to £203.9 million which was within the capital resource limit. The CRL was originally agreed at £248.4 million. During the year, £39 million was returned to the SGHSCD (£35 million as brokerage and £4 million approved slippage) on the understanding that the funding would be available for spending in 2012/13. Members were advised that capital expenditure was to be delayed in order to enable the national capital programme to achieve a balanced overall position for 2011/12.
- 39. The key area of the 2011/12 programme included the continuing work on the new South Glasgow hospitals project (£155 million was spent out of the total budget of £841.7 million). Good progress continues to be made with this major project. The new laboratory building was

handed over to the board on time and within budget on 9 March 2012 and all staff transfers to date have taken place in accordance with the migration plan. Approximately 700 staff will transfer to the new facility by the end of July 2012.

- **40.** Stage 2 of the project (new adults' and children's hospitals) is progressing in accordance with the plan; building work is progressing in accordance with timescales and budget. In addition, the community benefit programme continues to make good progress with over 45 apprentices being employed. The completion date for this development is during 2015 and SGHSCD remains committed to funding the cost of this project.
- 41. NHSGGC has a number of PFI commitments which are disclosed in Note 22 in the accounts. Seven contracts are reported on balance sheet and include the Stobhill and Victoria Hospitals ambulatory care and diagnostic treatment centres at a combined value of £193.8 million. The remaining projects (elderly and mental health facilities) range in capital value from £9.1 million to £19 million. The associated recurrent revenue cost of these schemes is £24.9 million with a total future commitment recorded in the balance sheet of £237.6 million.

Workforce reduction

42. Staff costs account for over 58% of board expenditure and therefore any significant cost savings are likely to have some staffing impact. The 2011/12 workforce plan estimated a reduction of 860 whole time equivalent (WTE). By managing the workforce and the redeployment of staff where possible, there was a reduction of 983.7 WTE staff during the year. The notes to the accounts provide further information as to the numbers and values of exit packages agreed during 2011/12. Further planned reductions are anticipated for 2012/13.

Financial planning to support priority setting and cost reductions

- 43. Uplifts in financial settlements have been reducing in recent years. In 2009/10 there was a general uplift of 3.15%, in 2010/11 the corresponding figure was 2.15% while the baseline revenue funding uplift for 2011/12 was 1.1% (after adjusting for the loss of prescription income and the introduction of the Change Fund). This pattern has continued into 2012/13, with the board's baseline revenue funding uplift being confirmed as 1%. After taking account of earmarked recurring funding (for example, access support £20.7 million and prisoner healthcare £4.4 million) NHSGGC has received a funding uplift of £46.2 million (2.4%) for 2012/13.
- 44. Looking forwards, indications are that funding uplifts are likely to be around 2.7% in 2013/14 and 2014/15. However given the current economic conditions and the impact of national spending priorities, there is also a risk that these pressures will have a significant impact on long term financial planning and the control of pay and non-pay costs.
- 45. The board's ability to achieve financial balance is again largely dependent on it successfully developing and implementing a comprehensive cost savings plan. There is currently a funding shortfall of some £59 million which will require to be met through the achievement of efficiency savings, which is the equivalent to 3% of the board's baseline revenue allocation. It has been estimated that the majority of the savings will be achieved through a reduction in

clinical pay costs (£15.2 million), management and administration costs (£5.1 million), general prescribing (£18.9 million) and non-pay costs (£14.9 million).

- **46.** The board plans to break even in 2012/13 although it is facing significant cost pressures with projected expenditure growth of £107.9 million. These cost pressures include:
 - **Pay costs.** The board anticipates that pay growth in 2012/13 will be £14.8 million as a result of an increase in pay for lower paid staff, changes to National Insurance rates and Agenda for Change incremental progression
 - **Prescribing.** For 2012/13 prescribing growth and inflation cost increases are likely to be in the order of £30.4 million. The board expects to achieve costs savings of £16.5 million in 2012/13 through a wide range of initiatives thereby containing net overall prescribing expenditure growth within £13.9 million. The scale of the cost savings and the initiatives which require to be successfully implemented present a high level of risk for the board.
 - Energy and general inflation costs. A 1% estimate has been set aside for non-pay costs (£9.6 million) and increased forecast energy costs (£4.4 million)
 - **New service commitments.** The impact of the full year effect of existing service commitments including prisoner healthcare, Change Fund and access to treatment funding is estimated to total £37 million.
- **47.** All additional expenditure will require to be met from the board's existing resource and any significant fluctuations in these costs will present a major challenge to achieve financial balance for the coming year.
- 48. The delivery of the cost savings plan in 2012/13 will be more challenging than it has been in recent years. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. Failure to achieve planned cost savings will impact on the board's ability to achieve a break even position.

Action point 6

Outlook

Significant financial risks beyond 2012/13

- 49. Looking forwards, there are early indications that the board may be required to achieve cash savings of approximately £40 million per annum in 2013/14 and 2014/15 in order to achieve financial balance. The majority of the cost savings in each year are expected to be generated from recurring sources. These levels of savings will be extremely challenging as the majority of readily achievable savings initiatives will have already been identified in previous years.
- **50.** Furthermore the financial plan assumes that future funding uplifts will be in the range of 2.7% to 2.8% for the period 2013/14 to 2014/15. This combined with growing cost pressures, will make the delivery of cost savings even more important.

Action point 6

Pension costs

- 51. Following national guidance from the Scottish Government, Note 23 of the accounts: Pension Costs reflects a Scotland-wide net liability of £370 million for the NHS Superannuation Scheme arising from the most recent actuarial valuation for the year 31 March 2004. Given that the Scheme ought to be subject to a full actuarial valuation every five years, a more up to date valuation would have been expected to have been reflected in the 2011/12 accounts.
- 52. A more recent actuarial valuation was carried out at 31 March 2008, but the publication of this valuation has been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme and publication of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet future commitments.
- **53.** As the net liability figure for the Scheme, as disclosed in Note 23, is out of date, there is a risk that the level of contributions will not be adequate to meet the future commitments of the Scheme.

Action point 7

Governance and accountability

- 54. The three fundamental principles of corporate governance openness, integrity and accountability apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
- 55. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
- **56.** Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
- 57. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

- **58.** The corporate governance framework within NHSGGC is centred on the board which is supported by a number of standing committees that are accountable to it:
 - Audit Committee
 - Quality and Performance Committee which incorporates the staff governance subcommittee which in turn incorporates the remuneration sub-committee
 - Area Clinical Forum
 - Pharmacy Practices Committee
 - Discipline (for primary care contractors)
- 59. The Role of Boards A follow-up audit was carried out by local auditors in 2011/12 to assess the progress that NHSGGC has made to improve the performance and operation of its board against the recommendations made in Audit Scotland's national performance report 'The Role of Boards' (September 2010).
- 60. In carrying out the study a checklist based on the key issues identified in the national report was used. The board has made good progress in implementing the recommendations outlined in the national report and we are satisfied that the board is committed to achieving

improvements in its performance. There are some areas which continue to be developed and we shall continue to monitor their progress.

- 61. The Quality and Performance Committee (Q&P), established in 2011, is a relatively new committee and incorporates the responsibilities of several committees that existed under the previous structure. Its objective is to create an integrated approach to governance including quality, clinical governance, patient safety and funding decisions, and to provide assurance to the board on performance in a number of critical areas. Staff governance is overseen by a sub-committee of the Q&P.
- **62.** Overall, the board's governance arrangements in 2011/12 were soundly based and operated effectively.

Patient safety and clinical governance

- 63. Patient safety is at the heart of clinical governance and risk management and a number of national arrangements and initiatives are in place to assist boards in this area. NHS Healthcare Improvement Scotland (NHS HIS) has lead responsibility for reviewing boards' performance in relation to patient safety, and for working with boards to improve patient safety. The remit of the Healthcare Environment Inspectorate (part of HIS) is to reduce the risk of hospital acquired infections (HAIs) in acute hospitals through assessment, inspection and reporting of boards' performance against HAI standards.
- 64. The Healthcare Environment Inspectorate (HEI) carried out a number of planned and unannounced inspection visits to several hospital sites within the board area during 2011/12. The results of these inspections have been generally satisfactory and action plans have been put in place to address any issues raised. NHSGGC have responded positively to the challenge and has established a board HEI Steering Group to ensure that actions and learning points from each inspection are cascaded to all hospitals within NHSGGC. In addition, a corporate inspection team, led by the Director of Nursing (Acute) has been developed. This team involves senior members of staff from all directorates who participate in an inspection which uses the same inspection tools and methodology as the HEI.
- 65. NHSGGC is continuing to make progress in implementing the Scottish Patient Safety Programme (SPSP). The board aims to achieve full implementation of the core programme in Acute Services by December 2012. The programme is currently being extended into elements of the mental health services and primary care.
- 66. An independent public inquiry ordered by the Cabinet Secretary into the Clostrodium Difficile (C.Diff) outbreak at the Vale of Leven Hospital commenced in February 2010 with reporting due by 31 May 2013. The most recent reporting of HEAT targets indicate that NHSGGC has a lower than average incidence of C.Diff compared to other boards and that it is currently achieving the 2013 target for patients aged over 65.

Partnership working

- 67. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS boards. It is the intention that Community Health Partnerships (CHPs) will contribute to one of the key principles set out in the Scottish Government's "Better Health, Better Care" publication which emphasises the need for ensuring better, local and faster access to health care.
- 68. There have been some significant changes to a number of NHSGGC's partnership arrangements with local authorities. The five Community Health and Care Partnerships (CHCPs) in the City of Glasgow were replaced by a single health-led Community Health Partnership (CHP) and integrated CHCPs were established in the Inverclyde and West Dunbartonshire areas, replacing the former CHPs. These arrangements continue to bed in and the partnerships continue to deliver appropriate healthcare services to their local population.
- 69. Since April 2011, a change has been implemented which sees services formerly managed by the Mental Health Partnership fully disaggregated and devolved to local CHP and CHCP committees.
- 70. Developments are evolving at a national level, and the Scottish Government's plans for integrating health and social care are discussed in the Outlook section in our report. In the interim, the risk remains that there may be tensions amongst the partners due to, for example, the differing legislative and governance bases of the partners, the willingness of partners to contribute and the availability of funds.
- 71. NHSGGC acts as the host body for the West Territory Hub Team. The West Hub will deliver projects in partnership through a joint venture company formed between various public and private sector bodies. Of the £200 million investment programme to be delivered in the next ten years, NHSGGC currently has four projects for which initial agreements are being prepared. The indicative capital cost of these projects is £47 million.

Internal control

- 72. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by their assessment of risk and the activities of internal audit.
- **73.** Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2011/12 PricewaterhouseCoopers, the board's internal auditors, provided their opinion that, based on the internal audit work undertaken during the year, there were no significant weaknesses that required specific mention in the annual governance statement.

- 74. As part of our audit we reviewed the high level controls in a number of NHS Greater Glasgow and Clyde systems that impact on the financial statements. This audit work covered a number of areas including cash income and banking, trade payables, trade receivables, capital accounting, family health services, payroll and general ledger. Our overall conclusion was that NHS Greater Glasgow and Clyde had adequate systems of internal control in place in 2011/12. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up at a future date to confirm that improvements have been made.
- **75.** With the development of shared services in NHS Scotland, there are a number of systems where NHSGGC is dependent on another NHS body for provision of services. NHS National Services Scotland (NSS) provides the following services:
 - Practitioner services
 - National IM&T
- 76. In accordance with International Standard on Assurance Engagement 3402 (ISAE3402). Which replaced Statement on Auditing Standard No 70, NHS NSS has commissioned service auditors to provide independent assurance that the key controls and processes operate satisfactorily to support defined key objectives. All opinions from service auditors were unqualified for the year 2011/12. Management should continue to work closely with NSS to ensure adequate resolution of the few matters identified for improvement.

Internal audit

77. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of internal audit in December 2011 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has appropriate documentation standards and reporting procedures in place. We placed reliance on internal audit work in a number of areas. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Governance statement

- 78. The governance statement, provided by the board's Accountable Officer, reflects the main findings from both internal and external audit work, and highlights the process by which the accountable officer obtains assurances over the adequacy and effectiveness of the system of internal control. This is a new format of disclosure for 2011/12 as specified by the SGHSCD. The new format includes the requirement for an overt assurance that arrangements have been made to ensure best value.
- **79.** Overall it was concluded by the board that no significant control weaknesses or issues have arisen, that no significant failures have arisen in the expected standards for good governance, risk management and control, and that appropriate arrangements for Best Value are in place. Our audit has confirmed that we concur with this assessment.

80. Internal control systems comprise the whole network of systems established in an organisation to provide assurance that organisational objectives will be achieved. To enable the accountable officer to sign the governance statement, assurances are required on the maintenance and review of the whole range of internal control systems, many of which will be directly managed by other senior officers. We have therefore recommended to management that to assist the accountable officer fulfil his responsibilities, specific assurances should be sought from senior staff in the organisation.

Action point 8

Use of government procurement cards and other credit cards

- 81. Across the public sector government procurement cards have been used to reduce the costs relating to the purchase of small items and some internet based purchases where a credit card is the most effective way of making payment. A recent significant fraud, in another public body, which in part resulted from misuse of the government procurement card highlighted that bodies need to ensure that their processes for the use of these cards are fit for purpose.
- 82. As part of our audit, we carried out a high level review of the use of such cards within the board and the controls in use. NHSGGC uses credit cards for the procurement of goods and travel. Twelve credit cards have been issued to NHSGGC staff with six considered to be 'back-up' cards. We identified that there was no review process in place to assess the continuing need for the cards. As a result, management have agreed to undertake a review of the cards in use together with their usage in order to assess the business need.

ICT Service delivery

- 83. The information and communications technology (ICT) based systems, supported by the Health Information and Technology (HI&T) department, underpin all aspects of healthcare delivery throughout the board. Our 2009/10 review of ICT service delivery reported that the board was making good progress towards consolidating systems and developing a single service.
- 84. As part of our 2011/12 audit we have reviewed continuing developments. There are a number of significant infrastructure projects currently underway that aim to further consolidate the systems in use and increase the board's resilience capabilities, for example:
 - the implementation of TrakCare providing, for the first time, a single Patient Management System serving all of the board's hospitals
 - the continued rationalisation of computer facilities, which will see the board's key clinical systems supported by a resilient architecture delivered from the data centre facilities at Westward House and Glasgow Royal Infirmary.
- 85. Overall our assessment indicates that good progress has been made with most actions agreed in 2009/10 and that current developments to consolidate and rationalise services will provide a good basis for continuing improvements. Our findings will be agreed with management and presented in due course.

SCI-Store

- 86. NHSGGC has made significant investment to support the move away from paper based support systems by progressively introducing the use of electronic based patient records. NHSGGC use its local SCI-Store as the main central repository for clinical reports, laboratory results and correspondence relating to each patient, with clinicians increasingly relying on this data as a routine aspect of patient care.
- 87. As part of our 2011/12 audit we are performing a review of the operation of SCI-Store, with particular interest in the controls that are in place to assure the quality of the data that is held within SCI-Store. We are currently concluding on this work and anticipate that our findings will be agreed with management during the summer.

Prevention and detection of fraud and irregularities

- **88.** Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
- 89. NHS Greater Glasgow and Clyde has a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, a Code of Conduct for Staff and policies covering 'whistleblowing' and fraud. The board has entered also into a formal partnership agreement with NHSScotland Counter Fraud Services (CFS) and a Fraud Liaison Officer is in place to ensure reports are circulated to appropriate managers and to the Audit Committee.
- 90. The board's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. Additionally, the board has agreed a formal protocol covering a programme of payment verification checks with the Practitioner Services Division of NHS National Services Scotland.
- **91.** We have concluded that the board's arrangements are adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

- 92. NHS Greater Glasgow and Clyde participate in the National Fraud Initiative (NFI). It uses computerised techniques to compare information held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. The SGHD and NHS Counter Fraud Services have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies
- **93.** NFI allows public bodies to investigate these matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

- 94. The most recent data matching exercise collected data in October 2010 with follow up matches being undertaken thereafter. Based on the 2010/11 exercise, we were able to conclude that the board is proactive in preventing and detecting fraud. The board's Financial Governance and Audit Manager and his team systematically review NFI data matches to identify areas for further investigation. In addition, the Audit Committee and Audit Support Groups receive regular reports on anti-fraud activities including updates on NFI.
- 95. The national report published in May 2012 noted that savings of £14.1 million had been directly identified from the 2010/11 investigations. The report includes a self-appraisal checklist which we recommend is considered by NHSGGC prior to commencing the next NFI round.
- **96.** The next round of NFI is due to commence in June 2012, and will look to expand the range of data sets and bodies. Participants should now be preparing for the 2012/13 exercise where data will be requested by October 2012.

Standards of conduct and arrangements for the prevention and detection of corruption

- **97.** Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
- 98. NHSGGC has a Code of Conduct for Staff which takes account of the existing national guidance on the Standards of Business Conduct and which incorporates the Whistleblowing Policy and the Fraud Policy. We noted that the board's Code of Conduct for Staff and online registration arrangements were last reviewed in 2009 and have not been updated to reflect the requirements of the new Bribery Act 2010 which was implemented in 2011. We have been advised that the code is currently being reviewed and will be updated and re-issued during 2012/13. With the exception of this, we have concluded that the arrangements in NHS Greater Glasgow and Clyde are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

Processes and committees

99. The creation of the Quality and Performance Committee was designed to improve the review and scrutiny of governance arrangements. However, its responsibilities are extensive and challenging. The committee considered its remit and performance at the July 2012 meeting. It was agreed by members that the committee is starting to bed in, agendas are becoming more streamlined and the over-arching remit does assist members to focus on several inter-linked areas of governance. It was agreed that the committee remit and performance will be re-assessed in 2013.

Partnership working

- 100. This is a developing area at a national level. In December 2011 the Cabinet Secretary for Health and Wellbeing announced the Scottish Government's plans to integrate adult health and social care across local government and the NHS. The main proposals are as follows:
 - Community Health Partnerships will be replaced by Health and Social Care Partnerships (HSCPs). The partnership will be the joint responsibility of the NHS and local authorities, and will work with the third and independent sectors.
 - HSCPs will be accountable to Ministers, leaders of local authorities and the public for delivering new nationally agreed outcomes. These will initially focus on improving older people's care.
 - NHS boards and local authorities will be required to produce integrated budgets for older people's services.
 - The role of clinicians and social care professionals in the planning of services for older people will be strengthened.
- 101. A smaller proportion of resources, money and staff, will be directed towards institutional care and more resources will be invested in community provision. The Scottish Government launched a consultation on the integration of adult health and social care in May 2012. The consultation sets out proposals to inform and change the way that the NHS and Local Authorities work together and in partnership with the third and independent sectors. The board recognise that the agreement of joint business and service priorities is essential to implementing these changes. The Chief Executive of NHSGGC has now met with a number of local authority chief executives to discuss specifically the implications of these proposals and to commence consideration on how to progress the proposed integration of services. We will monitor progress in this area.

NHS waiting times

- 102. The Auditor General has asked Audit Scotland to examine the use of patient unavailability codes in the management of NHS waiting times. This follows the recent critical review into NHS Lothian's reported misuse of patient unavailability codes and recognises the importance of this for patients and the public and the need for independent assurance.
- 103. Audit Scotland will look at how these codes were being used by health boards in Scotland during the past year. Audit Scotland will prepare a report on its findings which the Auditor General will present to Parliament after its summer 2012 recess. In addition, boards' internal auditors have been requested by the SGHSCD to carry out a review of waiting times as part of their 2012/13 internal audit plans. The results of this work are to be reported by 17 December 2012.

Transfer of prisoner healthcare

104. From 1 November 2011 responsibility for the provision of healthcare services to prisoners transferred from the Scottish Prison Service to individual health boards. Within the Greater

Glasgow and Clyde area, the board became responsible for providing healthcare at HMP Barlinnie, the largest prison in Scotland, and HMP Greenock. The associated cost is £4.4 million in 2012/13. The challenge will be to ensure that the services provided are effective and are performing to the required standard to the prison population.

Best Value, use of resources and performance

- **105.** Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.
- **106.** The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
- **107.** As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
- 108. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of best value toolkits to facilitate its reviews in these areas.
- **109.** During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
- 110. This section includes a commentary on the best value / performance management arrangements within NHSGGC. We also note any headline performance outcomes / measures used by NHSGGC and any comment on any relevant national reports and the board's response to these.

Management arrangements

Best value

- 111. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
- **112.** The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

- **113.** NHSGGC is committed to best value and has arrangements in place to help ensure continuing performance improvement. To assist the accountable officer in forming his view as to the arrangements in place to secure best value, a self assessment schedule which closely follows the guidance is completed by executive directors. The challenge will be in demonstrating the achievement of best value through continuous improvement and the delivery of improved performance and outcomes.
- 114. The board also has arrangements in place to develop systems in response to relevant reviews and developments, including consideration of Audit Scotland national reports. We have however recommended that management take a more pro-active role in ensuring that actions identified from the comparison of board practice to the national report are clearly identified and followed up regularly.

Action point 9

- **115.** In addition, the board conducts bi-annual organisational reviews for each business area, with action plans to address any recommendations for improvements. The board is also subject to an annual review process by the SGHSCD, again with plans developed to address any issues raised.
- **116.** We will continue to monitor the board's arrangements for demonstrating its commitment to best value and continuous improvement.

Best value audit toolkits

117. A key element of Audit Scotland's approach to the audit of best value in the public sector is the use of audit toolkits which cover the fundamental principles of best value. As part of our audit work for 2011/12, in agreement with management we applied a best value toolkit on procurement and we followed up on the actions taken following the publication of our report "Best Value use of resources – people management" which was issued in July 2010.

Best value toolkit: procurement

- 118. The procurement toolkit assessed a number of areas including overall direction, the framework to guide purchasing decisions, processes and systems to support procurement activity, and capability to ensure effective performance. Our draft report, which is currently being finalised, has assessed NHSGGC as largely displaying better and advanced practices. We noted some areas of good practice including:
 - The Head of Procurement is a suitably senior role within the organisation and through membership of various forums and groups is able to exert influence throughout the organisation and into the external environment.
 - In the 2010 Procurement Capability Assessment NHSGGC achieved a score of 85% which indicates superior performance.
 - Procurement performance is reported on a monthly basis to the Facilities Directorate senior management team. This includes an indication of whether the annual savings plan target is on course to be met.

- The board has strategies and processes in place which allow local small and medium sized enterprises to win contracts, especially concerning the South Glasgow Hospitals programme.
- 119. We did identify a small number of areas for improvement which will be discussed with management. The results of our review indicated that NHSGGC is able to demonstrate its commitment to the efficient use of procurement and meets many of the advanced practice examples cited in the toolkit. This is a good position to build on.

Best value toolkit: People management follow-up

- **120.** The overall conclusion of the 2010 report was that the organisation was predominantly at the "better practices" level in terms of people management. However, we identified three areas for improvement:
 - NHSGGC did not yet have a coherent approach to talent management which linked together recruitment, retention, reward, appraisal processes and succession planning
 - there was a need to provide development opportunities for frontline managers
 - NHSGGC did not measure individual and team productivity at all levels of the organisation.
- 121. In response to these issues, we were advised by the Director of Human Resources that:
 - a succession planning process for senior and clinical staff is now underway
 - NHSGGC has continued to invest in its "Ready to Lead" and that the total number of staff having benefited from the course is now over 600
 - a series of workforce planning tools are now in use throughout the organisation to begin to ensure that staffing is in line with activity. This is most advanced in nursing.

Service redesign

- **122.** The board has managed service redesign through the Acute Services Review (ASR) and Acute Services Acceleration Plan.
- 123. The ASR which is being implemented over a thirteen year period has already delivered a number of key developments including two new Ambulatory Care Hospitals and the new Beatson Oncology Centre.
- 124. The ASR has now moved into its final stage which is the re-development at the Southern General hospital site. In 2012, the board began a review of its clinical services which will redefine the pattern of services from 2015 (when the ASR will conclude) and will assist the board in responding to the national 2020 vision. The continued redesign of services will require changes to be made in the numbers and skill mix of staff. This together with the impact of cost pressures on staffing levels may result in a loss of essential knowledge and experience or, more generally, a loss of staff morale.

Action point 10

Asset management

125. In 2011, the Scottish Government commissioned a review of the NHS Estate in Scotland. The report 'State of the NHSScotland Estate' found there were significant maintenance backlogs at a number of NHSGGC sites and concern was expressed about the sustainability of assets given the low level of maintenance. Management are currently reviewing the findings of this report and preparing a response which will take account of the completion of the new South Glasgow hospitals. The completion of this project together with the associated changes in the use of the remaining assets will impact positively on the state of NHSGGC assets.

Performance management

- **126.** NHSGGC has a well established performance management framework in place for monitoring and reporting on performance. The main elements of this framework are:
 - bi-annual organisational performance reviews for all activities within NHSGGC
 - performance reporting to the corporate management team
 - reports on waiting times and access targets at each meeting of the CMT
 - regular reporting to the Quality and Performance Committee on HEAT and other performance targets
 - individual performance appraisal of all Directors and senior managers.
- 127. In addition, the board's policy and planning frameworks, which inform the annual planning and performance cycle, include a quality framework that sets out the required outcomes and actions to deliver a quality service. These policy and planning frameworks are used to establish the annual development plans produced by each part of the organisation.
- **128.** NHSGGC is subject to an annual review which is chaired by the Cabinet Secretary for Health and Wellbeing and held in public. As part of the review the Cabinet Secretary meets with the Area Clinical Forum and the Area Partnership Forum. The annual review highlights good performance and identifies areas where specific action would be required to improve health and treatment.

People management

- 129. As with other health boards in Scotland, NHSGGC faces a major challenge in achieving the national sickness absence target of 4%. The current sickness absence rate for the board is 4.67% which although above target is a slight improvement on last year when the rate was 4.77%. Sickness absence is a key focus of performance reviews and each division has a detailed plan in place to reduce absence levels.
- 130. It is crucial for NHSGGC to have effective workforce planning arrangements in place in order to secure best value and meet challenging performance targets. The board continues to develop its planning arrangements, including corporate guidance, to help ensure workforce plans are properly aligned to service and financial plans.

Using locum doctors in hospitals - follow-up audit

- 131. Using Locum Doctors in Hospitals A follow-up audit was carried out by local auditors in 2011/12 to assess the progress made by NHSGGC against the recommendations made in Audit Scotland's national report 'Using Locum Doctors in Hospitals' (June 2010). This followup report assesses the extent to which the board is using locum doctors more efficiently, effectively and safely.
- 132. In carrying out the study we used a checklist based on the key issues identified in the national report. Our draft report was issued to management in May 2012. We found that good progress has been made by NHSGGC in applying the recommendations identified in the Audit Scotland national report 'Using Locum Doctors in Hospitals'. However, the board faces a number of challenges achieving compliance with its own internal policy and with the continued development of the internal medical bank. A number of points were identified for management action which we will continue to monitor throughout our audit appointment.

Overview of performance in 2011/12

- 133. The Q&P now has the responsibility for reviewing performance and it receives an integrated quality and performance report at each meeting which covers Health improvement, Efficiency, Access to service and Treatment (HEAT) targets and standards, quality outcome measures which link directly to the national quality ambitions, and local key performance indicators. The board also continues to receive specific updates on waiting times and access targets.
- 134. As reported to the May 2012 meeting of the Q&P, 23 out of 33 indicators met or exceeded their targets. Examples where 2011/12 performance has met or exceeded the targets include alcohol brief intervention, inequalities targeted cardiovascular health checks, all suspicion of cancer treatments within 31 days, 18 weeks referral to treatment, completion rates for child healthy weight intervention and reductions in A&E attendance.
- 135. Some targets were not fully achieved. These include faster access to specialist services for child and adolescent mental heath, acute beds lost to delayed discharge, delayed discharge and sickness absence rates. In each case management have established actions to improve performance. There remains the challenge to balance achievement of performance targets against reducing funding levels and other competing service priorities.

Action plan11

National performance reports

- **136.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports.
- 137. These reports are considered in detail by the board members and where appropriate relevant senior managers are invited to outline the impact of the national report and indicate how the board will address any recommendations made. Reports in the last year that have been issued are noted in Table 3 below and can be found on the Audit Scotland website.

Table 3: A selection of national performance reports 2011/12

- Transport for health and social care (Aug 2011)
- Scotland's public finances addressing the challenges (Aug 2011)
- A review of telehealth in Scotland (Oct 2011)
- Overview of the NHS Scotland's performance 2010/11 (Dec 2011)
- Cardiology services (Feb 2012)
- Commissioning social care (Mar 2012)

Source: www.audit-scotland.gov.uk

- 138. In relation to Transport for Health and Social Care, officers compared NHSGGC's performance against the checklist included within the national report and this was considered by the audit committee in March 2012. The board considers that many of the recommendations have been actioned and the board continues to work with partners in order to baseline activity patterns and identify opportunities to eliminate transport duplication.
- **139.** All of the other national performance reports highlighted in table 3 will be considered by the audit committee in October 2012.

Outlook

Service redesign

140. The current Acute Services Review will conclude during 2015 with the completion of the new South Glasgow Hospitals project. Looking forwards, the clinical services review (launched in February 2012) will seek to deliver an integrated strategy for health services across the board area which takes account of changing demand and demographics, improves efficiencies and achieves financial sustainability.

Equality Act 2010

141. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013. We will consider progress made by the board in implementing these requirements as part our 2012/13 audit.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	22 December 2011	10 January 2012
Annual Audit Plan	31 January 2012	10 January 2012
The Role of Boards – Follow-up audit	29 May 2012	5 June 2012
Using Locum Doctors in Hospitals – Follow-up audit	Draft issued 29 May 2012	19 October 2012 (proposed)
Internal Controls Management Letter	4 June 2012	5 June 2012
Report to Audit Committee in terms of ISA 260	20 June 2012	19 June 2012
Independent auditor's report on the financial statements	19 June 2012	19 June 2012
ICT Service Review		19 October 2012 (proposed)
Annual Report on the 2011/12 Audit	31 July 2012	19 October 2012 (proposed)
Best Value Use of Resources – Procurement		19 October 2012 (proposed)

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	20	Equal Pay NHSGGC has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the board's financial position.	The Board will continue to work with CLO in respect of Equal Pay claims and will quantify the liability when information is available.	Paul James, Director Of Finance / Ian Reid, Director of Human Resources	By March 2013
2	22	Disposal of Woodilee Site The board's balance sheet includes a debtor balance of £19 million in respect of the disposal of the Woodilee Hospital site. There is a risk that, given the current economic climate and the reduction in land values that the income due from the site may not be fully realised.	The Deale has a legal	Paul James, Director Of Finance	April 2012 to March 2016
3	24	Allocations for specific projects The board needs to stay in close dialogue with SGHD to ensure better matching of funding flows to the timing of spending plans for specific projects. There is a risk of this limited	The Board will monitor the SGHD allocations throughout 2012/13 to ensure that funding and expenditure are matching timeously.	Paul James, Director Of Finance	By March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		resource not being directed towards priorities.			
4	25	Bad debt provision Included within trades receivables are outstanding sundry debtor balances of £41.4 million against which there is a bad debt provision of £1.1 million. There is a risk that the provision does not accurately reflect the level of non-recoverable income.	A review of the bad debt provision will be carried out in 2012/13.	P Ramsay, Head of Financial Services	By March 2013
5	29	Heritage Assets From 2011/12 boards were required to separately disclose any heritage assets. No formal review was undertaken by NHSGC. There is a risk that the board is unable to fulfil its stewardship responsibilities and follow the principles of FRS 30 Heritage assets.	A formal review will be undertaken by the Board in 2012/13 in respect of potential heritage assets.	P Ramsay, Head of Financial Services	By March 2013
6	48, 50	2012/13 Savings Target The board faces a wide range of financial challenges in delivering the LDP and Quality Improvement Agenda. There is a risk that it may not be able to make its savings targets in 2012/13. The longer term financial plan remains at	The Board has initiated processes to review performance against savings targets on a monthly basis to ensure the savings target of £59.0m identified for 2012/13 is achieved.	Paul James, Director Of Finance	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		risk of not being affordable and is a significant challenge to the board moving forward.			
7	53	Actuarial valuation There is a risk that the current level of contributions from employers and employees will not meet the future commitments of the Scheme. NHSGGC should work with the SGHSCD to ensure that the Scheme is subject to timely evaluation in compliance with the requirements of the Scheme, and that the adequacy of the employer and employee contributions has been reviewed.	The Board will work with SGHSCD in 2012/13 to ensure that the scheme is subject to a timely evaluation in compliance with the requirements of the scheme.	Paul James, Director Of Finance	By March 2013
8	80	Internal control assurances The accountable officer relies on informal assurances from his management team as to the effectiveness of the internal controls in operation. There is a risk that without specific and formal consideration of these controls by management, together with their assurances, that limited confidence can be placed	The Board will continue its practice of seeking formal assurance from the Audit Committee, Audit Support Groups, Q&P Committee (in respect of Clinical Governance), Staff Governance Committee, Risk Management Steering Group and Information Governance. The Board will consider	Paul James, Director Of Finance	By March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		on the internal control system.	measures to roll out a process to gain assurance on internal controls from		
9	114	Audit Scotland National Reports	appropriate senior staff.		
		Action plans arising from the review of Audit Scotland national reports should be followed up. There is a risk that the good practice identified in these national reports is not applied in NHSGGC.	The Board will continue to ensure that national reports are issued to relevant directors to prepare action plans to implement improvements. National reports and action plans are considered by CMT and outcomes scrutinised by the Audit Committee. A follow-up process will be put into place to ensure all actions have been implemented.	Director Of Finance	Ongoing
10	124	Workforce Planning It is likely that the board will require to reduce staff numbers in order to achieve its 2012/13 cost savings plan and to address the reconfiguration of services. There is a risk that this may result in key personnel leaving the board with a consequent loss of essential knowledge and experience or more generally a loss of staff morale.	-	lan Reid, Director of Human Resources	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			of services will help to		
			improve recruitment		
			and retention of staff.		
11	135	Performance Targets			
		There is a risk that in a	The Board has in place	Robert	Ongoing
		climate of reducing	a performance	Calderwood,	
		funding and completing	management system	Chief Executive	
		priorities, performance	which has been		
		targets are not achieved or	designed to ensure that		
		maintained.	performance against		
			key targets is		
			monitored. This is		
			facilitated both through		
			the Organisational		
			Performance Review		
			process and oversight		
			by the Quality and		
			Performance		
			Committee to minimise		
			the risk that key		
			performance targets are		
			not met.		

NHS Greater Glasgow and Clyde Annual report on the 2012/13 audit





Prepared for NHS Greater Glasgow and Clyde and the Auditor General for Scotland July 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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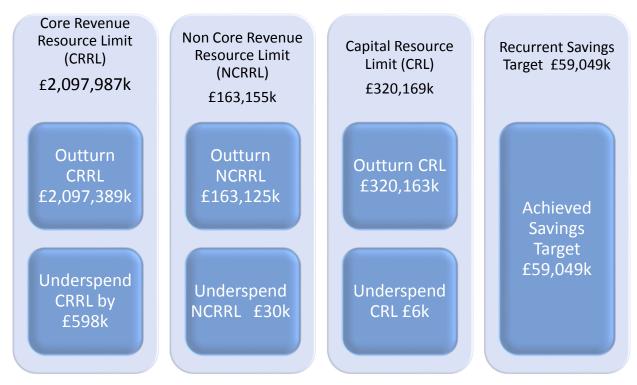
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Key messages

2012/13 Key facts

The Scottish public sector is experiencing significant financial challenges in providing expected levels of service within the agreed financial framework. In 2012/13 we assessed the key strategic and financial risks being faced by NHS Greater Glasgow and Clyde (NHSGGC, the board). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our findings. The key financial messages are summarised in Exhibit 1 below.

Exhibit 1: Financial performance 2012/13



Financial statements

We have given an unqualified audit report on the financial statements of NHSGGC for 2012/13. We also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

Financial position and use of resources

The board achieved all of its financial targets in 2012/13 and returned a saving against its total Revenue Resource Limit of £0.628 million as at 31 March 2013.

The board achieved savings of £59.0 million in 2012/13, all of which were recurring.

The board's 2013/14 financial plan requires cost savings of £33.7 million to be generated from recurring sources, which will be extremely challenging. A further £26.2 million non-cash releasing savings are to be delivered. The plan gives indicative figures for 2014/15 and 2015/16 suggesting further recurring savings of around £38 million in each of these years will be required.

The board's total capital budget for 2012/13 was £320.2 million and this was underspent by ± 0.006 million. In addition the board returned ± 11.6 million to the Scottish Government Health and Social Care Directorates (SGHSCD) on the understanding that it would be available for spending in 2013/14.

Governance and accountability

In 2012/13, the board had sound overall governance structures in place which included a number of standing committees overseeing key aspects of governance. These included Audit, Staff Governance, Remuneration and Quality and Performance Committees. The board also maintained an effective internal audit function and anti-fraud arrangements were in place.

Performance and best value

The board has a well developed framework in place for monitoring and reporting performance. The board's integrated performance report, which is presented at each meeting of the Quality and Performance Committee, provides members with assurance on the overall performance of the organisation.

In 2012/13 the board met or exceeded a number of performance targets set by the Scottish Government. However, the board has not achieved its performance targets in some areas. In particular, the board did not achieve its delayed discharges target nor its carbon emissions target.

Audit Scotland's report on the management of patients on NHS waiting lists found limitations in the systems in use within NHSGGC to provide an audit trail for how waiting lists were managed. A local review of waiting times carried out by internal audit identified some areas for improvement. The board has provided written assurance to the Scottish Government that improvement actions identified by internal audit have either been implemented or are in progress.

Outlook

The financial position going forward is becoming even more challenging than previous years with limited increases in funding, increasing cost pressures and challenging savings targets. To achieve continuing financial balance the board will require to deliver further recurring cost savings. Expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage.

The new South Glasgow Hospitals project continues to progress, with construction reported as being on time and on budget. It is due to be fully operational in 2015. In 2012/13 a further

£226 million was spent and as at 31 March 2013 £462 million of the £842 million capital budget had been spent.

The significant financial challenges in 2013/14 and beyond will require the board to prioritise further its use of resources. This will make maintaining or improving on the performance targets set by the Scottish Government even more challenging, including the key area of waiting times.

Introduction

- This report is the summary of our findings arising from the 2012/13 audit of NHS Greater Glasgow and Clyde. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the public sector audit model.
- 2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the board.
- 3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the board understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
- 4. This report is addressed to the board and the Auditor General for Scotland and should form a key part of discussions with the Audit Committee, as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, as appropriate. Audit is an essential element of accountability and the process of public reporting.
- 5. This report will be published on our website after consideration by the board. The information in this report may be used for the Auditor General's annual overview of the NHS in Scotland's financial performance later this year. The overview report is published and presented to the Public Audit Committee of the Scottish Parliament.
- 6. The management of the board is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements 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.

Financial statements

- 7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
- 8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
- 9. Auditors review and report on, as appropriate, other information published with the financial statements, including the directors' report, governance statement and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

- **10.** We have given an unqualified opinion that the financial statements of NHSGGC for 2012/13 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
- 11. The board is required to follow the 2012/13 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.
- **12.** We have also reviewed the board's governance statement and concluded that it complies with Scottish Government guidance.

Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that require us to certify that, in all material respects, the expenditure and income shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Accounting issues

14. As required by auditing standards we reported to the Audit Committee on 19 June 2013 the main issues arising from our audit of the financial statements. The main points discussed are noted at paragraphs 15 to 31 below.

Accounts submission

- 15. We received the unaudited financial statements on 13 May 2013 in accordance with the agreed timetable. The working papers supplied by the Head of Financial Services were generally of a good standard. However, working papers supplied from elsewhere in the organisation in support of a number of specific accruals were of variable quality. We provided our proposed audit opinion to the Audit Committee on 19 June as outlined in our annual audit plan.
- 16. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the financial statements. The effect of these adjustments was to decrease expenditure and increase net assets by £0.3 million. The more significant changes related to:
 - £7.65 million (reduction in accruals) for expenditure which more correctly relates to 2013/14
 - £3.8 million (increase in accruals) to recognise a payroll accrual to cover a further 4 years
 - £2.4 million (increase in accruals) to reflect an increase in the untaken holiday pay accrual
 - £0.96 million (increase in accruals) to reflect year end actual prescribing costs.
- 17. A number of other monetary errors were identified during the audit which were not processed through the financial statements by management. The net effect of these unadjusted differences would be to decrease expenditure / net operating costs by £0.64 million and to increase net assets by £0.64 million.

Disposal of Woodilee Hospital

18. In March 2007 the board agreed to the sale of the Woodilee Hospital site for a total of £32.5 million to a consortium of developers. Since then instalments totalling £16.5 million have been received by the board. A revised payment structure for the remaining sum was agreed in March 2012 for full recovery in instalments by November 2016. The board's contract with the consortium stipulates that the developers are jointly and severally liable for their obligations. Furthermore, standard securities, over the land, have been obtained from the developers and if all default on their obligations then the board could exercise the standard securities. In May 2013 the board received confirmation from their independent property advisor that the value of the security held is worth in the region of £18.6 million against an outstanding debt of £16 million.

Impairment of non current assets

19. The financial statements record impairments taken to operating costs of £52 million of which £44 million refers to the impairment of the Yorkhill sites in advance of the move to the new South Glasgow Children's Hospital. Three years remain of the hospitals' useful lives in advance of their planned closure. This was approved by the Property Management Group in

February 2013. However, there are a number of other hospital sites (for example, Victoria Infirmary and the Mansionhouse Unit) affected by the move to the new hospital which have not been impaired.

20. We have been advised by management that the other sites will be impaired once a firmer date is known for the completion of the new build and the related closure of the other sites. In addition, management are currently considering the timetable of closure in light of continuing pressures on bed numbers. The Accountable Officer has provided assurances that no firm decision has been taken in respect of closure of these other sites and consequently the carrying value of those non current assets have been properly stated in the accounts.

Equal pay claims

- 21. The National Health Service in Scotland has received in excess of 9,000 claims for equal pay and 3,884 (2011/12: 4,159) of these relate to NHSGGC. Developments over the past year have slowed down the progress of claims and led to a reduction of claims going forward.
- 22. The Scottish NHS Central Legal Office (CLO), which is co-ordinating the legal response to this issue, has stated that comparator jobs have still not been identified. As a consequence there is insufficient detail to allow an estimate to be made of the likelihood of the success of the claims or any financial impact they may have. We are aware that the extent of the potential liability is decreasing given that the period over which back pay for any established breach would have to be calculated is the period between dissolution of their employing Trust and 30 September 2004. The limited scope of these claims was upheld by the Employment Appeal Tribunal in the test case of Foley and Ors v Greater Glasgow Health Board (August 2012).
- 23. The Scottish Government Health and Social Care Directorates (SGHSCD), the CLO and Audit Scotland met in March 2013 to review the accounting treatment and disclosure requirements for the 2012/13 accounts. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2012/13 financial statements of affected NHS boards.
- 24. As with other boards, NHSGGC has not been able to quantify the extent of its liability for Equal Pay claims and has disclosed a contingent liability. There is a risk that as these claims progress they could have an impact on the board's financial position.

Action point 1

Trades payables

25. We identified a number of payroll accruals which referred to periods in excess of one year (£8.05 million). In addition, an accrual for unpaid maternity pay on public holidays had already been processed in respect of 2012/13 but the board was instructed by SGHSCD (in May 2013) to accrue for the previous 4 years. This led to an adjustment of £3.8 million which increased net operating costs. We were satisfied that accruals were based on the best information available as at 31 March 2013.

- 26. Our audit review identified a number of year end expenditure accruals for which no goods or service had been received. We raised concerns as to the quality of the evidence being provided to demonstrate that there was a constructive obligation. In addition, we identified specific funding from the SGHSCD for projects, where, due to the nature of those projects, not all of the funding had been spent by the year end.
- 27. A further review by management resulted in a reduction in accruals by £7.65 million as they did not relate to constructive obligations at year end. We have discussed with the Director of Finance the need to review this area in conjunction with the SGHSCD and NHSGGC finance staff to ensure that liabilities are only accrued when there is a constructive obligation and that funding for special projects better reflects the planned phasing of expenditure.

Action point 2

28. Included within the original accounts submitted for audit was an accrual of £20.8 million in respect of untaken holiday pay. However, back-up for the calculation was only received on 13 June 2013 following review by management of this accrual. The revised figure resulted in an increase of £2.4 million. We were able to confirm with management that there has been no change to the methodology of the annual leave accrual but rather the size of the base population has increased giving a more accurate figure.

Clinical and medical negligence

29. Included within the financial statements are clinical and medical negligence claims made against NHSGGC of £69.3 million (£59.4 million 2011/12). This provision has been assessed using information provided by the CLO who have assessed the likely value of settlement. In addition to this, the board has finalised two structured settlements for clinical negligence (£16.8 million) involving an initial payment and further annual payments over the estimated lifetime of the persons affected. A creditor has been created for the total anticipated annual payments, along with a corresponding debtor to reflect the CNORIS compensating income the board will receive.

Vale of Leven inquiry

30. The Inquiry was set up by Scottish Ministers to investigate the occurrence of C.difficile infection at the Vale of Leven Hospital from 1 January 2007 onwards. The Inquiry also investigated the deaths associated with C.difficile which occurred between 1 December 2007 and 1 June 2008. The chairman was due to report by 31 May 2013. However, an extension has been agreed and it is intended the final report will be published in autumn 2013. Appropriate provision has been made in the accounts for all negligence claims received.

Heritage assets

31. We have been advised that management do not consider there to be any material heritage assets. Whilst this may be the case, we have again recommended that a review of the existence of such assets be undertaken so that the board fulfils its stewardship

responsibilities. This is particularly important at a time when there is a programme of planned hospital closures.

Action point 3

Other issues

32. Our audit identified a number of stock write-offs which had not been separately notified to finance officials and which exceeded the board's delegated limit. As a consequence a retrospective application for approval was made to the SGHSCD and is currently being awaited.

Action point 4

33. We reported to management that Scottish Government guidance (September 2007) states that the board is obliged to publish certain information as part of an annual report. The NHSGGC annual report appears in the "Health News" autumn edition and includes only some of the recommended financial information, for example outturn against Revenue Resource Limit and Capital Resource Limit. The expectation as laid out in the guidance is for boards to include a summary of operating costs and balance sheet items. In response, management have agreed to review the guidance and ensure compliance.

Outlook

Endowments

34. As a result of an agreed derogation from the FReM, NHS Scotland boards were not required to consolidate endowment funds within their 2012/13 financial statements, in terms of IAS 27, Consolidated and Separate Financial Statements. It is anticipated that consolidation will take effect from 2013/14 onwards. However, discussions have been continuing between Audit Scotland and SGHSCD as to whether the consolidation will occur at board level or at SGHSCD level (as the 'ultimate parent'). Irrespective of where the consolidation occurs, NHSGGC will require to have endowment fund figures available for inclusion in the 2013/14 financial statements (both for the current and prior years).

Action point 5

Financial position

- **35.** Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
- **36.** Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
- **37.** These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

The board's financial position as at 31 March 2013

- 38. All health boards are required to work within the resource limits and cash requirement set by SGHSCD. NHS boards are required to differentiate between core and non-core expenditure for both revenue and capital.
- **39.** The board achieved all its financial targets in 2012/13 as outlined in Table 1 below:

Financial Target	Target	Actual	Variance
Revenue resource			
Core	2,097,987	2,097,389	(598)
Non core	163,155	162,125	(30)
Capital resource			
Core	320,169	320,163	(6)
Non core	0	0	0
Cash position			
Cash requirement	2,543,000	2,542,673	(327)

Table 1: 2012/13 financial targets performance £'000s

40. The board achieved a cumulative surplus of £0.628 million compared to a planned break even position. NHSGGC's 2012/13 financial plan included a £59 million savings target to achieve financial balance. By the end of 2012/13, all required savings were achieved on a recurring basis through the introduction of recurring savings schemes although some of the recurring

schemes started later than expected. As a consequence, additional non recurring savings were generated to make up for the in-year shortfall in cash terms. The achievement of savings on a recurrent basis places the board in a good position going forward.

- 41. Last year the board reported a net underspend of £0.302 million which was made up of a core RRL underspend of £1.289 million and a non-core RRL overspend of £0.987 million. During 2012/13, the SGHSCD returned the full core underspend of £1.289 million to the board to fund revenue activities. As reported in the annual accounts the reported outturn against the current year's RRL was a deficit of £0.661 million.
- 42. A transfer from capital to revenue funding was agreed by the SGHSCD to reflect the requirement to undertake backlog maintenance. While some £5.0 million was transferred out of the CRL, only £2.0 million was added to revenue in 2012/13. Management have advised that the remaining £3.0 million will be re-provided by the SGHSCD in 2013/14 as non-recurring revenue.

Budgetary control

43. The financial position was regularly monitored and reported to the board. While overspends were reported during the year, rising to £1.0 million in period 4, a break even position was anticipated by the year end. The deficit decreased as the planned savings were realised.

Capital resource limit

- 44. Capital expenditure during the year amounted to £320.2 million which was within the revised capital resource limit (£6k underspend); during the year £11.6 million was returned to the SGHSCD on the understanding that the funding would be available for spending in 2013/14.
- 45. The key area of the 2012/13 programme was the continuing work on the new South Glasgow Hospitals project. Expenditure of £226 million was spent on this major project during the year, giving a total to date of £462 million spent out of the overall budget of £842 million.
- 46. The total project is progressing in accordance with plan and within timescale and budget. In addition, the community benefit programme continues to generate employment and apprentice opportunities with 411 jobs being filled by March 2013. The completion date for this development is during 2015 and SGHSCD remains committed to funding the cost of this project.
- 47. In addition to the development of these hospitals, work continues on the provision for car parking. A joint project with the University of Glasgow for a Learning and Teaching Centre is being addressed with a full business case due to be submitted to the SGHSCD in October 2013. Future outline plans include provision for accommodation for administration staff.
- Expenditure during 2012/13 on other major capital projects included Glasgow Royal Infirmary tower (£12.0 million), Alexandria Health Centre (£15.5 million) and medical equipment (£15.8 million).

49. NHSGGC has a number of PFI commitments which are disclosed in Note 22 of the accounts. Seven contracts are reported on balance sheet and include the Stobhill and Victoria Hospitals ambulatory care and diagnostic treatment centres, at a combined value of £193.8 million. The remaining projects (elderly and mental health facilities) range in capital value from £9.1 million to £19.0 million. The associated recurrent revenue cost of these schemes is £29.0 million with a total future commitment recorded in the balance sheet of £237.4 million.

Workforce

50. The 2012/13 workforce plan estimated a reduction of 578 whole time equivalent (WTE). However due to various operational pressures the actual reduction was only 63.7 WTE staff during the year. Additional funding was provided by the Scottish Government to offset the additional expenditure incurred. The notes to the accounts provide further information as to the numbers and values of exit packages agreed during 2012/13. (See paragraph 138 for further details). The initial workforce projections for 2013/14 are indicating an increased workforce which takes account of the various pressures and investments identified at paragraph 53.

Financial planning to support priority setting and cost reductions

51. The board's draft Local Delivery Plan (LDP) for 2013/14 aligns strategic priorities with financial plans, workforce plans and asset plans. The board's financial planning arrangements include regular monitoring, reporting and updating of information to allow potential risks to be addressed properly. It is therefore important that the board continues to closely monitor costs in order to take any required remedial action through supplementary cost saving schemes.

Financial sustainability and the 2013/14 budget

- 52. In 2012/13 the board received a funding uplift of 2.4% and an uplift of 2.76% for 2013/14.
- 53. The board faces significant cost pressures of £91.5 million in 2013/14. These include: pay cost rises of £22.7 million (including £5.9 million related to pension fund auto-enrolment); prescribing growth and inflation increases of £27.7 million; energy and general inflation costs of £15.2 million; and service pressures and commitments of £17.2 million.
- 54. The board's ability to achieve financial balance is again largely dependent on it successfully developing and implementing a comprehensive cost savings plan. There is currently a funding shortfall of some £33.7 million which will require to be met through the achievement of cash releasing efficiency savings. In addition, a further £26.2 million of non-cash releasing savings are to be delivered which, in total, reflects the equivalent of 3% of the board's baseline revenue allocation. It has been estimated that the majority of the savings will be achieved through service productivity (£30.3 million), general prescribing (£26.2 million) and procurement (£2.1 million).
- **55.** The delivery of the cost savings plan in 2013/14 continues to be challenging because the level of flexibility in budgets is considerably reduced by the release of cost savings in previous

years. Failure to achieve planned cost savings will impact on the board's ability to achieve a break even position.

Action point 6

Outlook

Significant financial risks beyond 2013/14

56. The financial plan assumes that future funding uplifts will be in the range of 2% for the period 2014/15 to 2015/16. Further cost pressures are inevitable. There are early indications that the board may be required to achieve cash savings of approximately £38.0 million per annum in 2014/15 and 2015/16 in order to achieve financial balance. The majority of the cost savings in each year are expected to be generated from recurring sources.

Action point 6

Pension costs

57. The most recent actuarial valuation of the pension fund to be published is for the year 31 March 2004. Subsequent periodic valuations have been placed on hold by HM Treasury pending the outcome of public sector pension reforms. Given that periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the fund, there is increasing need to reflect on the adequacy of current contributions to meet future costs.

Action point 7

Governance and accountability

- **58.** The three fundamental principles of corporate governance openness, integrity and accountability apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
- 59. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
- **60.** Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
- 61. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

- 62. The corporate governance framework within NHSGGC is centred on the board which is supported by a number of standing committees that are accountable to it. These standing committees include:
 - Audit Committee
 - Quality and Performance Committee which incorporates the staff governance subcommittee which in turn incorporates the remuneration sub-committee
 - Area Clinical Forum
 - Pharmacy Practices Committee
 - Discipline (for primary care contractors).
- 63. The Quality and Performance Committee (QPC) was established in 2011 and its objective is to take an integrated approach to governance including quality, clinical governance, patient safety and funding decisions, and to provide assurance to the board on performance in a number of critical areas. Its remit was considered by members at the July 2013 meeting where concerns were raised about the level of challenge it provides given the scope and length of the agenda. It was agreed that the review would be further considered at a board awayday, later in the year.

64. An Audit Scotland representative attends the meeting as an observer and we observe challenge exercised in a number of key areas. However due to the length of the agenda (meetings frequently exceed 3 hours) discussion can be restricted. Were the board to continue with the current structure, members need to be assured that effective scrutiny is exercised in committees and groups which report into the QPC and that members can rely fully on the information provided to QPC.

Action point 8

- 65. Our overall conclusion is that the overarching governance structures in NHSGGC, at board and committee level, are broadly satisfactory and have operated effectively throughout 2012/13. In addition, the board reviews and updates its governance arrangements on an annual basis.
- 66. We reported in our controls report, submitted in May 2013, that important corporate governance documents had not been subject to timely review and update: Standing Financial Instructions were last reviewed in April 2011; the Scheme of Financial Delegation and Financial Governance was last reviewed in 2006. There is a risk that financial policies and procedures are out of date. Management have advised that a review is ongoing with an expected completion date of September 2013.

Patient safety and clinical governance

- 67. Patient safety is at the heart of clinical governance and risk management and a number of national arrangements and initiatives are in place to assist boards in this area. NHS Healthcare Improvement Scotland (NHS HIS) has lead responsibility for reviewing boards' performance in relation to patient safety, and for working with boards to improve patient safety. The remit of the Healthcare Environment Inspectorate (part of HIS) is to reduce the risk of Health Acquired Infections (HAI) in acute hospitals through assessment, inspection and reporting of boards' performance against HAI standards.
- 68. The Healthcare Environment Inspectorate (HEI) carried out a number of planned and unannounced inspection visits to several hospital sites within the board area during 2012/13. The results of these inspections have been generally satisfactory and action plans have been put in place to address any issues raised. NHSGGC has responded positively to the challenge with an established board HEI Steering Group to ensure that actions and learning points from each inspection are cascaded to all hospitals within NHSGGC.
- 69. NHSGGC is continuing to make progress in implementing the Scottish Patient Safety Programme (SPSP) which is one of the national improvement programmes developed in relation to the national Healthcare Quality Strategy. Hospital mortality is a fundamental element of the SPSP. For all acute inpatient and day case patients admitted, the Hospital Standardised Mortality Ratio (HSMR) is now being measured and reported regularly to the Acute Clinical Governance Forum, the QPC and the board.
- **70.** Mental Health Services have agreed to participate in phase one of the SPSP which is a voluntary programme, commencing with adult psychiatric inpatient units. Work will be

undertaken on the implementation of risk assessment and safety planning. This phase is due to conclude shortly and will inform the content of phase two, which is compulsory.

71. The board has reviewed the recommendations of the Francis Inquiry which outlined failings at Mid Staffordshire NHS Foundation Trust and considered the implications for NHSGGC. A report outlining how NHSGGC compares and identifying potential areas for action has been produced and shared with the QPC.

Partnership working

- 72. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS Boards. The board has established Community Health Partnerships (CHPs) with 3 Councils and Community Health Care Partnerships (CHCPs) with 3 Councils. These partnerships provide care and public health services in a local setting to meet the needs of the local population.
- 73. NHSGGC is committed to the delivery of shared outcomes with its community planning partners. Public Partnership Forums are established in each CH(C)P area with relevant committees meeting during the year. These ensure that service users are involved in service developments, and links are established with other local governance structures, for example, community planning committees, to co-ordinate services which meet the needs of local areas. This is very much a developing area at a national level, and the Scottish Government's plans for integrating health and social care are further discussed in the Outlook paragraphs of this section of our report.
- 74. NHSGGC acts as the host body for the West Territory Hub Team. The West Hub will deliver capital projects in partnership through a joint venture company formed between various public and private sector bodies. Of the £200 million investment programme to be delivered in the next ten years, NHSGGC currently has five projects under development, two of which (Maryhill and Eastwood Health Centres) are at outline business case stage. The indicative capital equivalent value of these projects is £54 million.

Internal control

- **75.** While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is also informed by our assessment of risk and the activities of internal audit. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements.
- 76. In their annual report for 2012/13 the board's internal auditors (PriceWaterhouseCoopers) stated their opinion that, based on the internal audit work undertaken during the year, 'there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. Using the terminology set out in the

Department of Health guidance to Heads of Internal Audit (which is built into NHS Internal Audit Standards as adopted by the Scottish Government) this opinion would equate to Significant Assurance'.

- 77. As part of our audit we reviewed the high level controls in a number of NHSGGC systems that impact on the financial statements. This audit work included the general ledger, cash and cash equivalents, trade payables, trade receivables, family health services, payroll, stores, capital accounting and a general ICT review. A significant development was that NHSGGC moved onto the National Fixed Asset System during the year. Our overall conclusion was that NHSGGC had adequate systems of internal control which operated effectively during 2012/13. We identified some areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed-up at a future date to confirm that improvements have been made.
- 78. With the development of shared services in NHS Scotland, there are a number of systems where NHSGGC is dependent on another NHS body for provision of services. NHS National Services Scotland (NSS) provides the following services:
 - Practitioner services
 - National Information Management and Technology (IM&T).
- 79. In accordance with International Standard on Assurance Engagement 3402 (ISAE3402), NHS NSS has commissioned service auditors to provide independent assurance that the key controls and processes operate satisfactorily to support defined key objectives. All opinions from service auditors were unqualified for the year 2012/13. Management should continue to work closely with NHS NSS to ensure adequate resolution of the few matters identified for improvement.
- 80. As the national IM&T report did not include assurances regarding the controls in place in respect of the National Fixed Asset System we conducted additional work locally and did not identify any material weaknesses. We would recommend that the board seek assurances for this new national system in subsequent years.

Internal audit

- 81. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of internal audit in November 2012 and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place. We placed reliance on internal audit work in a number of areas. This avoided duplication of effort.
- 82. From 1 April 2013, a common set of Public Sector Internal Auditing Standards (PSIAS) were adopted which will apply to all internal audit service providers, whether in-house, shared services or outsourced. As part of our 2013/14 review of internal audit we will assess compliance with these new standards.

Governance statement

- 83. The governance statement, provided by the board's accountable officer, records the process by which he obtains assurances over the adequacy and effectiveness of the system of internal control. There was a new format for 2011/12 and the SGHSCD provided updated guidance in 2012/13. The format includes the requirement for explicit assurance that arrangements have been made to secure best value.
- 84. Overall it was concluded by the board that no significant control weaknesses or issues had arisen in 2012/13, nor had there been any significant failures in the expected standards for good governance, risk management and control. Through our audit work we concur with this assessment.
- 85. In response to a matter raised in our 2011/12 report, the accountable officer has sought to receive assurances from CH(C)P chairs and a wider range of directors who manage a range of internal control systems. However, our review noted that a number of these formal assurances were not received by the due date and some continue to remain outstanding. It is essential that such assurances are received in enough time to permit the accountable officer to fulfil his responsibilities effectively.

Action point 9

ICT service reviews

- 86. As part of our 2012/13 audit we carried out two ICT service reviews. The ICT Change Management audit reviewed and assessed the policies and procedures that the board has in place to implement changes in the ICT live environment.
- 87. Our overall conclusion is that the board's change management process is effective in that 90% of the changes implemented over the 16 months to April 2013 have been classified as successful. However, we identified a number of areas for improvement. We noted in particular that there is a lack of detailed infrastructure documentation which makes it difficult to determine which parts of the service will be affected by changes. This could lead to a higher risk of unplanned service interruptions which may impact on the delivery of front-line services. The draft report was issued to the Director of Health Information and Technology in July 2013.
- 88. Our second ICT audit is a review of the board's User Identity and Access Management process. Our review focuses on the controls in place to ensure access management is structured to securely maintain ICT information and that individuals can be held accountable for information that is processed. We will provide management with our draft report in August 2013.

Prevention and detection of fraud and irregularities

89. NHSGGC has a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies. The board has a formal partnership agreement with NHSScotland Counter Fraud Services (CFS) and the Fraud Liaison Officer of NHSGGC ensures reports are circulated to appropriate managers and to the Audit Committee.

- 90. The board has a formal programme of internal audit work which, although not designed to detect fraud, provides assurance on the operation of the control systems which are designed to prevent fraud. In addition, the board has a formal protocol covering a programme of regular payment verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2012/13 these checks included verification against patient records, requesting patients to confirm treatment, practice visit and examination of patients.
- **91.** We have concluded that the board's arrangements are adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

- 92. NHSGGC participates in the National Fraud Initiative (NFI). NFI is the biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies on their financial systems to identify potential fraud, error or anomalies. It is part of the statutory audit and is now governed by Section 26F of the Public Finance and Accountability (Scotland) Act 2000 (as amended). The SGHSCD and NHS CFS have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies.
- **93.** NFI allows public bodies to investigate these data matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
- 94. The 2012/13 NFI exercise has expanded upon the previous range of datasets and bodies. Datasets were submitted in October 2012 and matches were released to participating bodies at the end of January 2013. The data matching exercise for the board identified over 17,000 matches of which 1,470 were recommended for investigation. Progress has been made with 343 investigations completed (mainly in the payroll and VAT categories) by the end of June 2013. To date, there have been no cases of fraud or error found in this data matching exercise.
- **95.** The board's Fraud Liaison Officer provides regular reports and updates to the Audit Committee and Audit Support Groups on anti-fraud activities including updates on NFI.
- **96.** As part of our on-going audit work, we will continue to monitor the board's response to the latest NFI exercise. This will include meeting with the board's Fraud Liaison Officer and monitoring the progress of data matches on the NFI database.

Standards of conduct and arrangements for the prevention and detection of corruption

- **97.** Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions.
- **98.** NHSGGC's Code of Conduct for Staff was updated and re-issued during 2012/13. It takes account of the existing national guidance on Standards of Business Conduct, incorporates the whistleblowing and fraud policies and reflects the requirements of the new Bribery Act 2010 which was implemented in 2011. We concluded that the arrangements in NHSGGC are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

Partnership working

- 99. Between 2011/12 and 2014/15 the Scottish Government's spending will fall by 5.5% (£1.5 billion), allowing for inflation. Reductions of this scale are a significant challenge to the Scottish public sector. The Christie Commission report on the future of public services (June 2011) highlighted the need for a new, more radical, collaborative culture throughout Scotland's public services with a much stronger emphasis on tackling deep-rooted and persistent social problems in communities.
- 100. There is now a renewed focus on partnership working focused on community planning. Audit Scotland's recent report on Improving Community Planning in Scotland (March 2013) highlighted that community planning has had little influence over mainstream public sector budgets and other resources used to date. Subsequently, the Scottish Government has reemphasised the central role that community planning should play in driving the reform of public services in the 'Statement of Ambition' published by the Scottish Government and the Convention of Scottish Local Authorities. It sets out high expectations of community planning and puts the community planning process at the core of public service reform by providing the foundation for effective partnership working, within which wider reform initiatives will happen.
- 101. Building upon pilot audits of community planning partnerships in 2012/13, an audit of the Glasgow Community Planning Partnership (CPP) and partnership working in Glasgow is planned in 2013/14. As NHSGGC is one of the key partners in the CPP they will have a direct interest in this audit.
- **102.** Revised targets for delayed discharges mean that no health board is to have a delay over 4 weeks by 2013 and over 2 weeks by 2015. As at May 2013 the board reported 16 delayed discharges over 4 weeks, compared with 37 in 2011/12. Whilst good progress is being made, the national target has not been met. This further highlights the need to work effectively with other public sector bodies and consider fully the impact of closures and capacity issues in the private and voluntary care sectors.

Staff changes

103. We are aware that there will be a number of senior officers leaving the organisation over the next year. The Chief Operating Officer, Director of Human Resources, Director of Facilities, Director of Glasgow CHP and the Director for the South Glasgow Hospitals Project are all leaving the organisation. Several other senior officers are currently on secondment to the Scottish Government. These officials have extensive knowledge and experience of the health service which will be difficult to replace. Sound succession planning arrangements will need to be in place to ensure no disruption to service delivery arises from the departure of these senior officers particularly at a time when the board is facing a period of major change with the move to the new South Glasgow Hospitals and the integration of health and social care.

Public Bodies (Joint Working) (Scotland) Bill

- **104.** The <u>Public Bodies (Joint Working) (Scotland) Bill</u> was published on 28 May 2013 and sets out the proposed principles for integrating health and social care. It provides two options for integrating budgets and functions:
 - delegation to an integration joint board established as a corporate body the NHS board and local authority would agree the amount of resources that each will commit to deliver services to support the delegated functions
 - delegation between partners the NHS board and/or local authority delegates functions and the corresponding amount of resource to the other partner.
- 105. NHSGGC responded to the Scottish Government consultation document by endorsing the vision and the case for change. The Chief Executive is continuing to meet with partner local authority chief executives to discuss specifically the implications of these proposals. We will monitor progress in this area.

Boundary changes

106. On 3 June, the Scottish Government announced that NHS board geographical boundaries were to match their local authority partners' boundaries, in order to support the new arrangements. This will have most effect on NHSGGC and NHS Lanarkshire in terms of the numbers of potential patients affected (78,000 patients moving to NHS Lanarkshire from NHSGGC). The Scottish Government's funding allocation process will take account of the financial implications of the changes in NHS board populations. GPs affected will need to transfer their contract to another NHS board as appropriate. The changes will come into effect in April 2014. A joint planning group is being set up with NHS Lanarkshire to manage the impact of the changes and ensure communication with local stakeholders.

Financial systems

107. From 1 April 2013 the board is using the eFinancials National Single Instance to record financial ledger transactions. NHSGGC was one of the last NHS boards to change onto this national system, marking a major milestone of the NHSScotland Shared Support Services Programme that started in 2002/03. All boards are now using the same ledger system and coding structures on a single platform. Using shared services of this nature has brought about efficiencies with a reduced number of servers, improved security and smaller carbon footprint.

Benefits system changes

108. There have been a number of major changes to the UK welfare benefits system with effect from April 2013. The board has raised concerns that welfare reform could have a significant impact on services; officers advised that provisions were in place to refer patients for appropriate advice if necessary. It is too early to say whether the welfare reforms are impacting on demand for NHSGGC services or the way they are accessed. We will monitor developments in this area.

Best value, use of resources and performance

- **109.** Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.
- **110.** The Auditor General may require auditors to consider the arrangements to fulfil the duty of best value. Where no requirements are specified, auditors may, in conjunction with audited bodies, agree to undertake local work on this topic.
- 111. As part of her statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
- 112. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of best value toolkits to facilitate reviews in these areas.
- **113.** During the course of their audit appointment, auditors consider and report on progress made by audited bodies in implementing recommendations arising from reviews in earlier years.
- 114. This section includes a commentary on the best value and performance management arrangements in NHSGGC noting headline performance outcomes. We also comment on any relevant national reports and the board's response to these.

Management arrangements

Best value

- **115.** In March 2011, the Scottish Government issued new guidance to accountable officers on best value in Public Services. The guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
- 116. The guidance identifies the themes which an organisation needs to focus on, in order to deliver best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of a public body's business.
- 117. NHSGGC is committed to best value and has arrangements in place to help ensure continuous improvement. To assist the accountable officer in forming his view on arrangements to secure best value, a self assessment schedule is completed by executive

directors annually. The challenge however will be in demonstrating continuous improvement through the delivery of improved performance and outcomes.

- **118.** The board is subject to an annual review process by the SGHSCD, and action plans are developed to address any issues raised at that annual public meeting. Internally the board conducts bi-annual organisational reviews for each business area, with action plans to address any recommendations for improvements.
- 119. We have raised previously that a number of Audit Scotland national reports have not been considered by any committee of the board. These reports provide an opportunity for the board to compare themselves against recognised good practice and can assist in the demonstration of best value. This omission has occurred due to a change in staff and management have assured the Audit Committee that a process is now in place to ensure consideration of all relevant Audit Scotland national reports. Action plans will be prepared, as appropriate, and presented to the Audit Committee.
- **120.** We will continue to monitor the board's arrangements for demonstrating its commitment to best value and continuous improvement.

Best value toolkits

- **121.** As part of our audit work for 2012/13, in agreement with management, we applied a best value toolkit on equalities.
- 122. The equalities toolkit assessed a number of areas including: knowing the profile and needs of its diverse communities; leading improvements in equality; providing equality of opportunity within a diverse workforce, and delivering positive outcomes for its diverse communities. Our report (issued June 2013) assessed NHSGGC as meeting many of the better practice as well as advanced practice examples cited in the toolkit. We noted a number of areas of good practice including:
 - the board has a dedicated Corporate Inequalities Team who are responsible for mainstreaming equality issues across the organisation
 - groups such as the Equality Health Reference Group and Patient Partnership Forums are well developed and have helped shape priorities in the corporate plan, the equalities scheme and transport and complaints policies
 - members and officers at NHSGGC have demonstrated leadership and shared ownership in improving equality with specific corporate responsibilities for achieving equality goals
 - commitment to improving equality outcomes is fully reflected in board policy and strategic objectives
 - equality training is available to staff through a number of e-modules and seminars
 - there is extensive use of equality impact assessments (EQIAs) across the organisation. The use of EQIAs has been incorporated into the board's Policy Development Framework. EQIAs help ensure that equality issues are considered during the development of policies, plans and strategies

 the board has a dedicated Equalities website that provides information to the public on the actions being taken to tackle inequalities in health as well as providing information to staff on the programmes and training available. In addition to this residents of the Greater Glasgow and Clyde area receive a bulletin, 'Health News', on a regular basis which communicates equality based news items and development.

123. We did identify a small number of areas for improvement including:

- there are currently limitations on collecting patient equalities information due to the numerous and varying ICT systems used across the board. The new Patient Management System will be fully introduced later in 2013 and should help improve the collection of patient information generally, including that relating to equalities
- community and stakeholder groups are not routinely involved in the EQIA process. There is a need for closer engagement with equality groups to ensure that their needs are fully understood and incorporated into policy, strategies and plans
- information on service user satisfaction is not routinely collected across all board services. As such it is not possible to make an overall judgement on whether user groups believe their diverse needs are being met
- there is no performance information available to demonstrate whether the board is delivering positive equality outcomes for the community as a consequence of its actions.
- 124. Overall, we have assessed that NHSGGC's arrangements for tackling inequality as falling within the 'better practices' category although there were some areas of basic and advanced practice identified. This is a good position to build upon. These results demonstrate the board's commitment to best value and continuous improvement.

Progress on the Equality Act 2010

- 125. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into the core work of all public bodies so that it is not a marginal activity but part of everyday business. As noted above lead responsibility for mainstreaming equality and diversity rests with the board's Head of Inequalities and Corporate Planning.
- **126.** The legislation requires the board to publish information, by 30 April 2015, about its equality outcomes, the actions taken by the board and the progress made to achieve them. This is to allow the public to assess the organisation's performance on equality.
- 127. In response, the recently published 'Meeting the Requirements of Equality Legislation: A Fairer NHS Greater Glasgow & Clyde' refers to a set of outcomes to be delivered over the next three years. It is anticipated that these equality outcomes will be fully integrated into the mainstream planning process and progress will be monitored through the board's performance monitoring processes.

Service redesign

- 128. NHS bodies need to deliver high quality services in a challenging financial environment which requires them to focus on the design and sustainability of services. The Acute Services Review (ASR), conducted in 2002, identified the need for service redesign. This has resulted in the completion of two new ambulatory care hospitals, the new Beatson Oncology Centre and a new laboratory block. The final stage of those programmes is due to conclude in 2015 with the opening of the new South Glasgow Hospitals (one for adults, and one for children) at the current Southern General site.
- 129. Last year the board began a review of clinical services which will redefine the pattern of services from 2015. This review 'Clinical Services Fit for the Future', will consider the best ways to deliver safe, sustainable and patient-focused care that will achieve the best health outcomes for patients. This review aims to assist the board in responding to the national 2020 vision.
- 130. Implementation of the board's electronic Patient Management System ('TrakCare') has continued during 2012/13. It is now live in Clyde and South Glasgow hospitals. The final phase of the roll out to all North Glasgow sites commenced in May 2013. Benefits are already being realised with the ability to see bed availability in real time, and standardisation of processes across different sites. The challenge will be to ensure that users adapt their working practices to make full use of the facilities and efficiencies offered by the new system.
- **131.** The impact of all service developments are closely monitored by the board and QPC to ensure that they continue to contribute to improving the patient experience whilst delivering best value.

Asset management

132. Following the review of NHS estate in Scotland, commissioned by the Scottish Government, officers conducted a review of the NHSGGC estate taking into account the impact of the completion of the new South Glasgow Hospitals. The Property and Asset Management Strategy (PAMS) 2013-2017 identifies backlog maintenance of £167 million. Funding has been set aside for property maintenance: £11 million in 2013/14 and £14 million in 2014/15. There remains a challenge in ensuring the estate remains fit for purpose.

Performance management

- 133. Delivery plans and performance management arrangements are based on Local Delivery Plans (LDPs), which are structured around a hierarchy of four key ministerial objectives: health improvement, efficiency, access, and treatment (HEAT). NHS Boards are required to agree their planned levels of performance, against each of the key measures with the SGHSCD. Boards' performance against these targets is a key component of the Annual Reviews conducted by the Cabinet Secretary for Health and Wellbeing.
- **134.** In addition to reporting to SGHSCD, the board has a well established internal performance management framework to monitor and report on performance, including:

- bi-annual organisational performance reviews for all business areas
- performance reporting to the corporate management team
- reports on waiting times and access targets at each meeting of the CMT and board
- regular reporting to the QPC on HEAT and other performance targets
- individual performance appraisal of all directors and senior managers.
- **135.** In addition, the board's policy and planning frameworks, include a quality framework that sets out the required outcomes and actions to deliver a quality service. These policy and planning frameworks are used to produce annual development plans for each part of the organisation.

People management

136. As with other health boards in Scotland, NHSGGC faces a challenge in achieving the 4% national sickness absence target. The average sickness absence rate over the year to 31 March 2013 was 4.9% which is an increase from the previous year (2011/12: 4.67%). The board continues to progress a range of approaches in order to reduce absence levels including detailed plans for each division.

Action point 10

- 137. It is important for NHSGGC to have effective workforce planning arrangements in place in order to secure best value and to meet challenging performance targets. The board continues to develop its planning arrangements, including corporate guidance, to help ensure workforce plans are properly aligned to service and financial plans.
- 138. The 2012/13 financial statements included £1.9 million in relation to 62 exit packages (2011/12: 68 packages, £1.9 million). Compromise agreements have been acknowledged by the board as offering a recognised way for employees to leave the organisation on a mutually agreed voluntary basis. As part of our 2012/13 audit, we discussed the Framework of Compromise Agreements and associated process with relevant officers and tested a sample of payments. The review established that each of the sample was as a result of a service redesign process, was supported by a business case, and had been appropriately authorised. However, we also identified occasions where the rationale for departing from the Framework had not been fully documented. Recommendations for improvements have been previously notified to management.
- 139. In response to the national objective to reduce management posts by 25%, the board has committed to reducing the total number of 262 senior manager posts by 66 within five years (from April 2010). The board remains on target to achieving this by 31 March 2015.
- 140. The board continues to face challenges in the recruitment of medical trainee and middle grade doctors. The shortfall has arisen due to the Scottish Government workforce reduction in trainee numbers agreed under Modernising Medical Careers. This is having most impact in Paediatrics, Emergency Medicine and Anaesthetics. 32 additional posts have been approved to increase capacity across the board at a cost of £3.5 million. It is anticipated that that similar difficulties will occur in future years.

Scotland's public finances - follow-up audit

- 141. A follow-up audit was carried out by local auditors in 2012/13 to assess the progress made by NHSGGC against the recommendations made in Audit Scotland's national report 'Scotland's public finances: addressing the challenge' (August 2011). This follow-up assesses how NHSGGC is responding to the challenges of public sector budget constraints and their efforts to achieve financial sustainability.
- 142. In carrying out the study we used a checklist based on the key issues identified in the national report. Our findings indicate that NHSGGC has sound arrangements in place for the production and review of financial plans and continues to meet its financial targets. A draft report will be issued in due course to management.

Overview of performance in 2012/13

- 143. The Quality and Performance Committee (QPC) receives regular performance reports on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards) and local targets. The board also continues to receive specific updates on waiting times and access targets.
- 144. Overall, the board's performance has been mixed. Performance against 25 HEAT targets and standards are recorded within the financial statements. Of these 16 were meeting the target, 6 were within 10% of the target while 3 were categorised as not being met. A further report submitted to the July 2013 QPC noted that of the 42 national and local standards and targets monitored by NHSGGC at that time, 25 were meeting the target, 9 were within 5% (reported as 'amber') and 8 were 5% or more outwith target trajectory (reported as 'red'). For those reported as 'red', the actions proposed to address performance were provided to members.
- 145. The board demonstrated good performance against a number of challenging HEAT targets including a decreasing rate of C.difficile infections, faster access to specialist services and improved child healthy weight intervention rates. The SGHSCD's standard that 90% of patients will wait no longer than 18 weeks from referral to treatment was one of the key targets achieved, as was the 12 week new outpatients referral target.
- 146. A number of targets were not met including: the 18 week target for accessing psychological therapies, the level of sickness absence and delayed discharges over 28 days. The four hour target for A&E waiting time is currently not being met, although by less than 5%. The board also missed targets on carbon emissions and overtime levels. It remains a challenge to balance achievement of performance targets against reducing funding levels and other competing service priorities.

Action point 11

National performance reports

147. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. The findings and key messages of these studies are published in national reports.

- 148. With the exception of Management of patients on NHS waiting lists (published February 2013), the last national report considered by the Audit Committee was Patient Transport (published August 2011), which was considered in March 2012. This matter was referred to in paragraph 119 above.
- 149. Other reports in the past two years that may be of relevance to the board include:

Table 2: A selection of national performance reports 2011 - 13

•	A review of telehealth in Scotland (October 2012)	•	NHS financial performance 2011/12 (October 2012)
•	Health inequalities in Scotland (December 2012)	•	Prescribing in general practice (January 2013)

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NHSGGC management of waiting times

- 150. Following reported misuse of patient unavailability codes in one NHS board, SGHSCD requested NHS boards' internal auditors to carry out a review of waiting times as part of their 2012/13 internal audit plans and to report their findings by 17 December 2012. Shortly after this date, the Cabinet Secretary for Health and Wellbeing reported to the Parliament the following findings:
 - there is no evidence of wide scale manipulation of waiting times across the National Health Service in Scotland
 - overall, the waiting times published by boards are reliable and accurate
 - the principal shortcomings relate mostly to: the capability to record on some information technology systems; the consistent interpretation of guidance; and staff training
 - there are specific, localised issues in board areas that need to be addressed.
- 151. As part of this study NHSGGC was one of a number of boards where targeted sampling of individual patient records was carried out. However, due to the limitations of NHSGGC's extant electronic waiting list systems, Internal Audit was unable to extract all of the necessary data for testing. Internal Audit concluded that on the basis of the work performed that 'overall, the waiting times processes and procedures within NHSGGC were operating in a controlled manner with no material deficiencies identified. In addition, sample testing did not identify any evidence of inappropriate amendments or contraventions of NHSGGC Waiting Times Policy'.
- **152.** The board had already recognised the limitations of its system and a new patient management system procured which will enable the board to access, review and evaluate patient information.
- 153. The Cabinet Secretary requested NHS boards to implement recommendations for improvement by March 2013. The Chairman of the Audit Committee provided a letter of assurance to the Scottish Government's Health and Wellbeing Audit and Risk Committee that

local improvements had been implemented or were in progress. The SGHSCD has requested that all boards undertake a follow-up audit to ensure planned improvements have been made and are working effectively. We will monitor the position at a future date.

- 154. Audit Scotland also carried out a review of waiting times across the health service in Scotland. The review recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.
- **155.** Audit Scotland's report on the management of patients on NHS waiting lists, published in February 2013, highlighted similar issues to those outlined above:
 - the systems used to manage waiting lists have inadequate controls and audit trails, and the information recorded in patient records is limited
 - most patients' records that were examined did not include enough information to verify that unavailability codes had been applied properly
 - Audit Scotland identified a small number of instances in which unavailability codes were used inappropriately. The limitations of waiting list management systems and the lack of evidence in patient records mean that it is not possible to determine whether these instances were due to human error, inconsistent interpretation of the guidance, or deliberate manipulation of waiting lists
 - there was not enough scrutiny of the increasing number of patients recorded as unavailable.

Prescribing in general practice in Scotland

- **156.** The overall aim of this national report was to examine prescribing in general practices across NHS Scotland and identify the potential to improve prescribing economy, efficiency and effectiveness
- **157.** The report highlighted that the NHS in Scotland spends almost £1.4 billion per year on drugs, of which almost £1 billion (70%) is spent in general practice. Territorial NHS boards spend about ten per cent of their budgets on GP prescriptions and boards continue to identify this as a significant cost pressure.
- 158. The report noted that NHS Scotland has improved its management of GP prescribing and family doctors are getting more support and guidance on their prescribing. The report, however, indicated that there was further scope for improvements and the potential to save up to £26 million per annum without affecting patient care. The savings could mostly be achieved through reducing waste and cutting the use of less suitable medicines.

Health inequalities in Scotland

159. Reducing health inequalities has been a priority for successive governments in Scotland with the introduction of major legislation supporting this aim, such as the ban on smoking in public places. The Scottish Government's spending review reiterated its commitment to addressing health inequalities, and allocated around £170 million to NHS boards to directly address health-related issues associated with inequalities. 160. The national performance report assessed how well public sector bodies are working together to target resources at health inequalities. The report indicated that it was unclear how much money NHS boards and councils spend in this area or what it is spent on. Furthermore, the report highlighted that the Scottish Government takes account of deprivation and other local needs in allocating funding to NHS boards and councils. However, it is not clear how these bodies target their resources at local areas with the greatest need.

Outlook

Performance

- 161. Key to the delivery of best value and improved performance will be the successful completion of the hospital building programme under the Acute Services review. Intense and sophisticated project management arrangements will have to be in place to secure a smooth transfer of services between old and new hospital sites and to minimise double running costs. In addition, it is essential that delayed discharges and the related acute bed days lost are minimised in order for the board to achieve optimum performance from the new hospitals.
- 162. Over recent years the board has invested substantial resources in order to achieve challenging performance targets set by the Scottish Government. The significant financial challenges that will be faced in 2013/14 make maintaining or improving performance even more challenging.
- 163. The Auditor General has been asked by the Public Audit Committee of the Scottish Parliament to provide an update on Audit Scotland's report: Management of patients on NHS waiting lists later this year. The audit work will focus on progress made by the NHS in establishing clear information audit trails and on the management and monitoring of waiting lists. The fieldwork will be carried out in September and October 2013 with a report to the Public Audit Committee by the end of December 2013.

Appendix A: audit reports

External audit reports issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Internal Audit Reliance Letter	21 December 2012	22 January 2013
Annual Audit Plan	31 January 2013	22 January 2013
Internal Controls Management Letter	30 May 2013	4 June 2013
ICT Change Management Process		
User Identity and Access Management		
Report to Audit Committee in terms of ISA 260	14 June 2013	19 June 2013
Independent auditor's report on the financial statements	14 June 2013	19 June 2013
Annual Report on the 2012/13 Audit	31 July 2013	6 August 2013
Scotland's Public Finances - Follow-up audit		
Best Value toolkit - Equalities	27 June 2013	8 October 2013

Appendix B: action plan

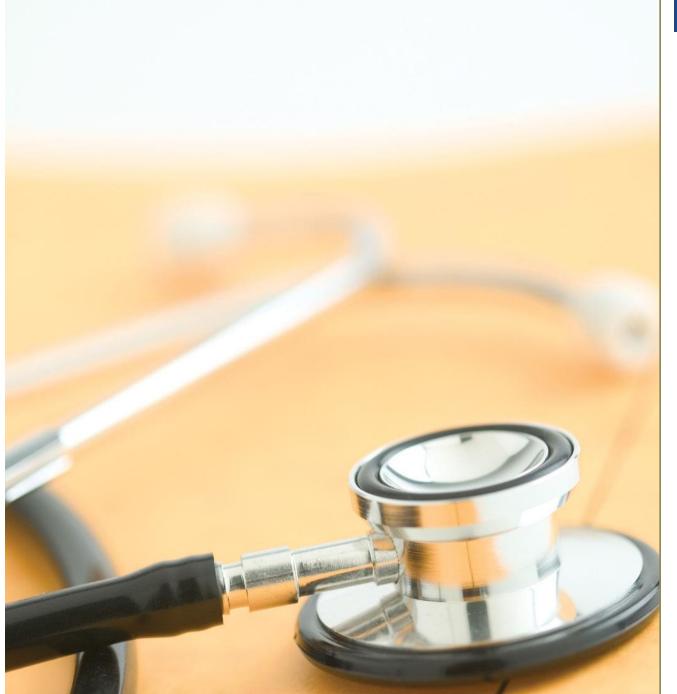
Key risk areas and planned management action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	24	Equal pay NHSGGC, as with other boards, has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities could have a significant impact on the board's financial position.	The Health Board will continue to work with the Central Legal Office in respect of Equal Pay claims and will provide for any liabilities when advised by Central Legal Office.	P James Director of Finance	May 2014
2	27	Accruals A number of projects were inappropriately accrued at year end and adjusted for in the final accounts. There is a risk that if expenditure is not accounted for in the correct accounting period, there is a loss of transparency in financial reporting. This has implications for subsequent resource allocation.	A review of the accrual process will be undertaken during 2013/14 and this will enable a stricter policy to be implemented for the year-end annual accounts.	P Ramsay Head of Financial Services	May 2014
3	31	Heritage assets From 2011/12 boards, under FRS 30, were required to separately disclose any heritage assets. No formal review has been undertaken by NHSGGC. There is a risk that the	A group has been set up to review potential Heritage Assets in NHSGGC in 2013/14.	P Ramsay Head of Financial Services	May 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		board does not fulfil its stewardship responsibilities.			
4	32	Stock write-off A number of stock write downs were not specifically notified to Finance. Several of these were in excess of the board's delegated limits. There is a risk approval from the SGHSCD to record such losses is not received.	A new procedure has been implemented in both finance and procurement to identify potential stock write- offs as they occur. This will allow control over the requirement of approval from SGHSCD to be sought when Health Board limits are exceeded.	P Ramsay Head of Financial Services	May 2014
5	34	Endowment funds The board needs to work closely with the SGHSCD to conclude on consolidation arrangements for 2013/14. This impacts on the compilation of prior year comparative figures. Delay in concluding this matter may add to the complexity of the production of consolidated accounts.	When the decision on consolidation arrangements has been taken, NHSGGC will set up a process to ensure that there is no delay in the production of the 2013/14 consolidated annual accounts.		May 2014
6	55, 56	2013/14 savings plan and beyond The board faces a wide range of challenges in delivering the LDP and Quality Improvement Agenda. There is a risk that it may not be able to deliver its	The savings plan targets for 2013/14 and beyond will be challenging but the Health Board will continue to monitor this area in line with	P James Director of Finance	March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		savings targets in 2013/14. This would impact on the longer term financial plan.	previous years to ensure that targets are met.		
7	57	Actuarial valuation No pension fund actuarial valuation has been published since 2004. There is a risk that the current level of contributions from employers and employees will not meet the future commitments of the fund.	The Health Board will comply with the guidelines of the SGHSCD in respect of this area.	P James Director of Finance	May 2014
8	64	Quality and performance committee The remit of the QPC should be reviewed in order to assess whether it is achieving all its objectives and is able to provide appropriate assurance to the board on relevant performance and governance issues.	A review of the remit of the QPC is ongoing and this will identify any potential improvements in the operation of the Committee.	-	March 2014
9	85	Governance statement The accountable officer seeks assurances from his management team as to the effectiveness of the internal controls in operation. Several assurances remained outstanding at year end. There is a risk that without specific and formal consideration by management, limited	We will put procedures in place to ensure that all Audit Assurance statements are available for the Audit Committee meeting at the beginning of June 2014 to allow the 2013/14 Annual Accounts to be completed in line with the timetable.	P Ramsay Head of Financial Services	May 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		confidence can be placed on the system of internal control system.			
10	136	Sickness absence NHSGGC faces a challenge in achieving the 4.0% sickness absence target. This may have an impact on service delivery.	The Health Board will continue to monitor this area in line with the Attendance Management policy to achieve the 4.0% sickness absence target.	l Reid Director of Human Resources	March 2014
11	146	Performance targets There is a risk that in a climate of reducing funding and completing priorities, performance targets are not achieved or maintained.	Performance targets will continue to be reviewed at QPC and any issues arising will be identified and action plans implemented to address them.	P James Director of Finance	March 2014



NHS Greater Glasgow and Clyde

Annual report on the 2013/14 audit

Prepared for the Board of NHS Greater Glasgow and Clyde and the Auditor General for Scotland

July 2014

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Key messages

Financial statements	 Unqualified auditor's report on the 2013/14 financial statements. Audited financial statements submitted to Scottish Government by 30 June 2014.
Financial position	 All 2013/14 financial targets met. Surplus of £10.2 million against a Revenue Resource Limit of £2,342 million. Recurrent savings of £59.9 million against planned savings of £59.9 million. Financial management remains strong.
Governance & accountability	 The board had sound governance arrangements in place. The board has an effective internal audit function and sound anti-fraud arrangements.
Best value, use of resources & performance	 The board has a well developed framework in place for monitoring and reporting performance. Of 47 indicators assessed against target, 62% (29) met or exceeded target; 19% (9) were within 5% of achieving the target while 19% (9) missed their target.
Outlook	 Efficiency savings and the recognition of new or increased income are necessary in order to bridge the funding gap and achieve the forecast breakeven position. The migration to the new South Glasgow Hospitals together with the resultant closure of a number of sites will result in a major change to the delivery of services. The successful implementation of ward bed and staffing models and the achievement of delayed discharge targets are necessary for performance targets to be achieved.

Financial Statements

We have given an unqualified audit opinion on the financial statements of NHS Greater Glasgow and Clyde (NHSGGC, 'the board') for 2013/14.

The board achieved all of its financial targets in 2013/14 and returned a surplus against its total Revenue Resource Limit of \pounds 10.2 million. In addition the board reported recurrent savings of \pounds 59.9 million which was in line with its planned savings target.

The board had initially budgeted to break-even against its Revenue Resource Limit in 2013/14. However following a review of expenditure patterns, and in agreement with the Scottish Government Health and Social Care Directorates (SGHSCD), a cumulative surplus of £10.2 million was reported for the financial year. The SGHSCD has agreed to re-provide the revenue surplus in future years to help fund the anticipated double running costs relating to the opening of the new South Glasgow Hospitals.

Financial management remains strong and there is challenge evident in agreeing and monitoring the financial position of the board.

Financial position

The board's 2014/15 financial plan requires cost savings of $\pounds 61.4$ million to be generated from recurring sources of which $\pounds 28.5$ million relate to non-cash releasing savings. The plan gives indicative figures for 2015/16 and 2016/17, suggesting further recurring savings of around $\pounds 69.6$ million and $\pounds 58.6$ million in each of these years will be required. The board is developing plans to deliver the planned savings. Key to the delivery of savings is the

successful migration to the new South Glasgow Hospitals together with the resultant closure of a number of sites. In addition, the successful implementation of ward bed and staffing models and the achievement of delayed discharge targets is necessary for the successful delivery of services.

The board recognises the difficult operating environment beyond 2014/15 and the challenges facing it, including reduced annual funding uplifts, pension and national insurance changes and the normal pressures of pay, prices and prescribing. Also, the Scottish independence referendum in September, regardless of the outcome, is likely to change the political and fiscal environment within which the board operates and adds a further layer of uncertainty to the organisation's financial plans.

Governance and accountability

In 2013/14 the board had sound governance arrangements in place. The Quality and Performance Committee (QPC), together with the Audit Committee, oversees key aspects of governance. The board also had an effective internal audit function and sound anti-fraud arrangements.

Following a critical disruption in ICT services and the subsequent review, we are pleased to report that the board has implemented all of the recommendations made by the independent Technical Assurance Review Group. However, the root cause of the disruption could not be identified. Business continuity arrangements were applied which resulted in no lasting impact on services provided.

NHSGGC has approved arrangements for five Integrated Joint

Boards (IJBs) with five of its local councils and agreement with the remaining Community Healthcare Partnership (CHP) (Renfrewshire) has yet to be reached. This agreement will require to be operational by 1 April 2015.

The board is reviewing its organisational structure. The chief operating officer left in 2013 and has not been replaced. Duties were shared out as an interim arrangement to provide some space for the chief executive to consider what a new structure could look like given the closure of two large acute hospitals and their amalgamation into one site together with the integration of health and social care. This review is currently being concluded. In the short term, corporate management team meetings in their previous form have ceased, being replaced with periodic management meetings between the chief executive and other key senior officers.

Best value, use of resources and performance

The board has a well established best value framework in place which is supported by well-developed performance management and reporting arrangements.

However of 47 HEAT performance indicators which were reported against target to the July 2014 Quality and Performance Committee, only 62% (29) were on or exceeded target. A further 9 are within 5% of the target. Of particular concern are the indicators relating to delayed discharges and the accident and emergency maximum wait of 4 hours. Management has identified areas for action and progress is being closely monitored.

Outlook

Health and social care integration is a key component of the Scottish Government's public sector reform agenda. It is important that the board and its council partners work jointly and effectively to make integration a success.

By delivering efficiency savings each year to compensate for the gap between available funding and the cost of services, the board is predicting a balanced budget position in each of the years from 2014/15 to 2018/19. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years. The board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. Achieving sustainability in the medium term will require further innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

This report is a summary of our findings arising from the 2013/14 audit of NHS Greater Glasgow and Clyde (NHSGGC, "the board"). The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

Our responsibility, as the external auditor of NHSGGC, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of NHSGGC is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to the board and the Auditor General for Scotland and should form the basis of discussions with the audit committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting. This report will be published on our website after it has been considered by the board. The information in this report may be used for the Auditor General's annual overview of NHS financial performance. The overview report will be published and presented to the Public Audit Committee of the Scottish Parliament later this year.

A number of **local and national reports** have been issued during the course of the year. These reports (**Appendix I**) include recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NHSGGC.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks, some of which involved a high degree of judgement by management, some of which had the potential to have significant impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix II** sets out the **key audit risks** identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Appendix III is an **action plan** setting out the issues, risks and recommendations arising from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".

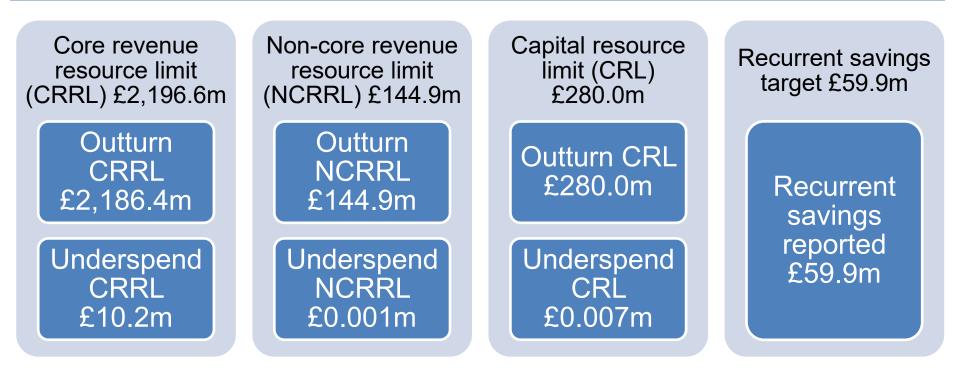
We recognise that not all risks can be eliminated or even

minimised. What is important is that NHSGGC understands its risks and has arrangements in place to manage these risks. The board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

We have given an unqualified opinion that the financial statements of NHSGGC for 2013/14 give a true and fair view of the state of its affairs and of its net operating cost for the year.

Other information published with the financial statements

Auditors review and report on other information published with the financial statements, including the Operating and Financial Review, Governance Statement and the Remuneration Report. We have nothing to report in respect of these statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the expenditure and income shown in the accounts were incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer. No issues require to be reported.

Accounting issues arising

A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the financial statements. The net effect of these adjustments is to decrease expenditure by $\pounds 0.08$ million. Net assets as recorded in the balance sheet have increased by $\pounds 0.08$ million. The more significant changes were:

- £2.83m (reduction in accruals) relates to a number of items adjusted as a result of review and amendment, and expenditure which more correctly relates to 2014/15
- £1.23m (reduction in accruals) to correct the double counting of payroll related accruals
- £0.63m (increase in accruals) to incorporate expenditure which should have been charged to 2013/14
- £3.44m (increase in accruals) to reflect an increase in the untaken holiday pay accrual

• £0.10m reduction in provisions to reflect provisions which could not be substantiated.

A number of other adjustments were identified which were not processed through the financial statements by management. These related to funding received in relation to specific health programmes which had not been spent or committed by the year end (\pounds 1.58m). The major elements of the specific programmes were in relation to cancer developments and MRSA-related projects (\pounds 0.96m and \pounds 0.37m respectively). While we requested that all errors be corrected, management considered that these adjustments were not material to the financial statements. This decision was agreed by those charged with governance having taken account of advice from officers.

Following guidance from HM Treasury the 2013/14 NHS accounts manual requires host boards to consolidate NHS endowment funds established by the National Health Service (Scotland) Act 1978, where material, into their financial statements. This consolidation has required the restatement of prior year comparatives and the inclusion of a consolidated opening balance sheet at 1 April 2012. The 2013/14 Statement of Consolidated Comprehensive Net Expenditure reflects net endowment trust income of £0.36m while the Consolidated Balance Sheet reflects £88.67m of endowment net assets.

We are pleased to note that the process of approval of the endowment accounts has been amended to be in line with the process for approval of the board's annual accounts. As a consequence the audited accounts for the endowment funds were signed on 24 June 2014 and there are no matters identified that would impact on the figures consolidated into the board's accounts.

Report to those charged with governance

We presented to the Audit Committee, on 17 June 2014, our report to those charged with governance (ISA 260). The primary purpose of that report was to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points are set out in the following paragraphs.

Disposal of Woodilee Hospital

There is an outstanding debt of £11m as at 31 March 2014 relating to sales proceeds of £32.5m for a disposal made in 2007. A revised payment structure for the remaining sum was agreed in March 2012 for full recovery in instalments by November 2016. Standard securities over the land have been obtained from the developers and in May 2013 the board received confirmation from its independent property advisor that the value of the security held is worth in the region of £18.6m. Officers have confirmed that they consider the remaining sums will be fully recovered and the full value realised by November 2016. We are therefore assured as to the likelihood of recovering the remaining balance.

Impairment of non current assets

In 2012/13 and 2013/14, in advance of the move to the new South Glasgow Hospitals, all sites identified for closure have been subject to a review for impairment. A further £28.5m was impaired in 2013/14. We are satisfied that the residual values reflect the remaining economic useful lives of the hospitals affected. This agrees with the guidance contained in the NHS capital accounting manual.

Revaluation of land and buildings

A full revaluation of land and buildings was undertaken in 2013/14 in accordance with the accounting policies. However a number of differences were identified between the valuer's report and the amounts incorporated into the Fixed Asset Register. We asked management to reconcile the different elements within the Register to ensure that the land and buildings assets reflect the revised valuation. We are able to report that the reconciliation was provided and has been subject to audit review. All differences have been satisfactorily resolved.

Indexation of assets under construction

The accounting policies state that assets under construction should be valued at current cost which is calculated by applying an appropriate index to arrive at the current value. The independent valuer has provided information that this index should be set at 8% in 2013/14 which would increase the value of the new South Glasgow Hospitals by £30m. However, management are aware that once the new hospitals become operational in spring 2015, they will be subject to a revaluation review which is likely to result in an impairment of some 5 - 10% of the total value recorded in the financial statements. Specific agreement was received from the Scottish Government Health and Social Care Directorates (SGHSCD) to not apply upward indexation to this asset under construction and we agreed with this action.

Equal pay

The National Health Service in Scotland has received in excess of 5,800 claims for equal pay of which 2,369 relate to NHSGGC. Such

claims are referred to the NHS NSS Central Legal Office (CLO).

In common with other NHS boards, NHSGGC has not been able to quantify the extent of its liability for equal pay claims and has disclosed an unquantified contingent liability. There is a risk that as these claims progress they could have an impact on the board's financial position. *(Action point 1)*

Payroll accruals

In 2012/13 we advised members that there had been a number of new payroll accruals and which related to periods in excess of one year (£8.05m). These included accruals for unpaid maternity pay on public holidays and salary enhancements which were due to be paid to staff while on annual leave. These accruals have continued to be relevant in 2013/14 and have risen to approximately £12m. Management has advised that there have been limited payments made to staff in respect of these accruals due to the detailed confirmation process which is necessary. We have reviewed the associated evidence and are satisfied that these accruals are based on the best information available as at 31 March 2014.

Trades payables - accruals

Our audit review identified a number of year end accruals for which no goods or service had been received. In addition we also identified specific funding from the SGHSCD for projects, where, due to the nature of those projects, not all of the funding had been spent by year end. We again raised concerns as to the quality of the evidence being provided. As a number of these accruals were unsupported, management agreed with our suggestion to reduce accruals by £2.83m. We have discussed with the Director of Finance the need to review this area in conjunction with the SGHSCD and NHSGGC finance staff to ensure that liabilities are only accrued when there is a constructive obligation and that funding for special projects better reflects the planned phasing of expenditure. *(Action point 2)*

Trades payable

Included within the original accounts submitted for audit was an accrual of £21.8m in respect of untaken holiday pay. Our audit work identified some double counting of untaken annual leave (£1.23m) and the calculation was amended to take account of this. The back up for the revised calculation was received on 10 June 2014. The revised figure has resulted in an increase of £3.44m in the accrual. We have reviewed the calculation provided and have assessed the estimation basis as reasonable.

Outlook

The financial statements of the board are prepared in accordance with the Government Financial Reporting Manual (the FReM). The main new standards to be adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities.

We anticipate that the impact of the adoption of the new standards is unlikely to be significant to the financial statements of NHSGCC in 2014/15.

Financial position

NHSGGC is required to work within the resource limits and cash requirement set by the SGHSCD. The final Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) were agreed with SGHSCD on 8 May 2014. The board achieved all of its financial targets in 2013/14.

The board had initially budgeted to break-even against its RRL in 2013/14. However, following a review of budgets and expenditure, and in agreement with the SGHSCD, a cumulative surplus of £10.2 million was reported for the financial year. The SGHSCD has agreed to re-provide the revenue surplus in future years to help fund the anticipated double running costs relating to the opening of the new South Glasgow Hospitals. The underspend has been achieved by setting aside certain non-recurring income streams.

Capital expenditure

The board spent a total of £280.03 million on capital projects during 2013/14. This amount was within its final CRL of £280.04 million; during the year £7 million was returned to the SGHSCD on the understanding that the funding would be available for spending in 2014/15.

The key area of the 2013/14 programme was the continuing work on the new South Glasgow Hospitals project. £220 million was spent on this project during the year, giving a total of £682 million spent to date out of the overall budget of £842 million. The total project is progressing in accordance with plan and budget. The date for completion has been brought forward to end January 2015. The internal fit out inspection process has commenced and the ordering of equipment started in March 2014. The community benefit programme continues to generate employment and apprentice opportunities to the local community. 529 posts have been filled as at March 2014 of which 106 are apprentices and 411 are new entrants and long term unemployed.

As a consequence of the underspend of the risk provision, the funding of equipment from endowments and general cost savings, additional construction elements have been added. The construction of the Teaching & Learning Centre (a joint project with the University of Glasgow) remains on programme and on budget (£8m) for completion by end May 2015. In addition, the construction of the New Administration Block remains on programme and on budget (£17m) for completion by April 2015.

As previously noted, the board has recognised a surplus of £10.2 million to fund double running costs for the migration to the new hospital. At this stage, the double running costs are based on estimates and will require to be re-assessed closer to the move. There is a risk that the board will face significant cost and staffing pressures as the new hospitals become operational with the subsequent potential impact on performance. *(Action point 3)*

Expenditure during 2013/14 on other major capital projects included the relocation of some Southern General wards (£8.2 million), Possilpark Health Centre (£6.0 million) and medical equipment (£14.2 million).

Backlog maintenance

In December 2013, the Annual State of NHS Scotland's Assets and Facilities report was published by the Scottish Government. It identified backlog maintenance of £858 million across Scotland which is required to be spent in order to bring assets to a satisfactory condition. NHSGGC is responsible for £163 million of this total although it is acknowledged that this will reduce by some £25 million once the new Hospitals are opened and the older buildings vacated and closed. In recognition of the backlog maintenance, a transfer from capital to revenue funding of £3 million was agreed by the SGHSCD in 2013/14 in addition to a further £3 million brought forward from 2012/13. There remains a challenge in ensuring the estate remains fit for purpose.

Financial sustainability

Historically, boards have relied upon a measure of non-recurring funding to achieve financial targets. There is a risk that over reliance on non-recurring income to achieve financial balance becomes unsustainable. Longer term financial plans should be based upon recurring expenditure streams as a basis for reviewing and redesigning models for service delivery.

The board's draft Local Delivery Plan (LDP) for 2014/15 aligns strategic priorities with financial plans, workforce plans and asset plans. The board's financial planning arrangements include regular monitoring, reporting and updating of financial information and the corporate risk register to ensure that focus be maintained on financial performance and that action is taken on any emerging issues. Budget reports are provided regularly to management team meetings (previously the Corporate Management Team) and to the board's Quality and Performance Committee and the full board on a bi-monthly basis.

The board's five year financial plan (submitted as part of the LDP) indicates a break-even position in each of the five years. The first three years of the plan contain the most detail and assumes efficiency savings of some £61.4 million in 2014/15 rising to £69.6 million in 2015/16 and reducing to £58.6 million in 2016/17. Future funding uplifts in the range of 2.7% for the period 2014/15 and 1.8% thereafter have been assumed.

The board's ability to achieve financial balance is again largely dependent on it successfully developing and implementing a comprehensive cost savings plan. There is currently a funding shortfall of some £32.9 million which will require to be met through the achievement of cash releasing efficiency savings. In addition, a further £28.5 million of non-cash releasing savings are to be delivered which, in total, reflects the equivalent of 3% of the board's baseline revenue allocation. It has been estimated that the majority of the savings will be achieved through service productivity (£41.5 million), general prescribing (£7.6 million) and workforce (£3.7 million). However, £4.2 million efficiency savings projects remain to be identified. Whilst the board is confident that it will be able to identify these further savings during 2014/15 there remains a risk that the required efficiency savings are not achieved. The board should ensure formal plans are produced covering all the required savings for 2014/15 as a priority. (Action point 4)

Workforce reduction

The 2013/14 financial statements include £0.925 million of costs relating to 30 exit packages (2012/13: 62 packages, £1.95 million). Compromise agreements have been acknowledged by the board as offering a recognised way for employees to leave the organisation on a mutually agreed voluntary basis. We tested a sample of payments and noted that each agreement was as a result of a service redesign process, was supported by a business case, and had been appropriately authorised. We were pleased to note that recommendations made to management in 2012/13 following our review of the Framework of Compromise Agreements have been applied. We are also aware that NHSGGC has changed the wording in its settlement agreements to clarify that signing such an agreement is not a bar to reporting workplace concerns. This is as a result of concerns raised nationally regarding the use of so-called "gagging clauses" in settlement agreements.

During 2013/14 the board incurred significant costs in relation to agency staff. Costs increased from £14.4 million in 2012/13 to £17.4 million, an increase of 21%. This increase reflects general staff pressures, for example: 4 out of 10 consultant posts were vacant in Inverclyde Royal for which cover was required; additional staff were required in key areas in order to achieve access targets. Continued reliance on agency workers to this extent may have a significant impact on the board's plans to achieve sustainable savings. (Action point 5)

Cost of pension provision

Note 23 in the financial statements for 2013/14 "Pension Costs" reflects a liability of £29.1 billion for the NHS Superannuation

Scheme. This figure is based on the latest quinquennial actuarial valuation on the NHS Superannuation Scheme as at 31 March 2004 but rolled forward to 31 March 2013. We are aware that the quinquennial actuarial valuation of the scheme is being conducted. Given that such valuations are key to determining the adequacy of employer and employee contributions to the scheme, completion of the latest actuarial valuation will bring clarity as to the adequacy of current contributions to meet the future commitments of the scheme. There is the potential that employer contribution rates may have to be increased as a consequence of this valuation and therefore may need to be incorporated into all financial plans.

Changes in pension legislation came into force in 2012 requiring automatic enrolment of all eligible employees into a workplace pension scheme. The board initially budgeted £5.9 million for the impact of auto-enrolment. However a further £3 million was required as the costs materialised, with just over 50% of staff who were auto-enrolled, remaining in the scheme.

PFI/ PPP costs

NHSGGC has a number of PFI commitments which are disclosed in Note 22 of the accounts. Seven contracts are reported on balance sheet and include the Stobhill and Victoria Hospitals ambulatory care and diagnostic treatment centres, at a combined value of £193.8 million. The remaining projects (elderly and mental health facilities) range in capital value from £9.1 million to £19.0 million. The associated recurrent revenue cost of these schemes is £29.4 million with gross minimum lease payments of £559 million due over the remaining repayment periods.

Outlook

The board is predicting a balanced budget position in each of the years from 2014/15 to 2018/19. However, this is dependent on the delivery of efficiency savings each year to compensate for the gap between available funding from current sources and the cost of services. The board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. There is a degree of uncertainty as to the ultimate double running costs which will arise at a time of transition between old and new operational sites.

In response to the impact of the actuarial valuation referred to above, management has recognised that there is a very strong risk that employer contribution rates will increase leading to significant financial pressure on the NHS from 2015/16.

Governance and accountability

Appropriate systems of internal control are in place		Arrangements for the prevention and detection of fraud and irregularities are satisfactory
	Gover arrangen opera effect	nents are
Arrangements for mair standards of conduct a prevention and detect corruption are satisfa	and the tion of	Committees of the board are effective in overseeing governance and performance monitoring

The board and the Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHSGGC and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

The corporate governance framework within NHSGGC is centred on the board which is supported by a number of standing committees. The key committee for overseeing governance and performance monitoring is the Quality and Performance Committee (QPC). It meets six times a year and can often have a very full agenda. An Audit Scotland representative attends the meeting as an observer and we note that scrutiny is exercised across a number of key areas.

The audit committee exercises scrutiny in its consideration of internal audit work programmes and outputs and receives all external audit reports. In addition fraud updates are regularly reviewed and the risk register is reviewed annually.

Based on our observations and audit work our overall conclusion is that the governance arrangements within NHSGGC are operating effectively. The committee structure is as follows:

Quality and Performance Committee (QPC) (oversees the Staff Governance Sub-Committee which in turn oversees the Remuneration Sub-Committee)

Audit Committee

Area Clinical Form

Primary Care (Disciplinary Committees)

Endowments Management Committee

Pharmacy Practices Committee

Internal audit

Internal audit provides the board and the Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. In addition, in an effort to avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

The review of internal audit was carried out in December 2013 and concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

Internal control

As part of our audit we reviewed high level controls in a number of key NHSGGC financial systems. This audit work covered the general ledger, payroll, accounts payable, accounts receivable, cash and cash equivalents, stores, capital accounting and family health services.

For several key financial systems we relied on prior year controls work and we were also able to place a degree of reliance on internal audit work in the areas of accounts payable, treasury/cash management and payroll.

As a result of our work a number of risks were identified and actions to address them agreed with management. We also followed up a number of outstanding controls and governance issues from prior years. We are pleased to note that the board's Standing Financial Instructions and the Scheme of Financial Delegation and Financial Governance were updated in April 2014. Our overall conclusion was that NHSGGC had appropriate systems of internal control in place during 2013/14.

Shared Services

There are a number of systems where NHSGGC is dependent on another NHS body for the provision of services. NHS National Services Scotland (NSS) provides Practitioner Services and National Information Technology systems and contracts. From 1 April 2013 the board has been using the eFinancials National Single Instance (NSI) to record financial ledger transactions. NHS Ayrshire & Arran has responsibility for the support of the finance systems.

In accordance with International Standard on Assurance Engagement 3402 (ISAE3402), NHS Ayrshire & Arran and NHS NSS commissioned service auditors to provide independent assurance that key controls and processes are operating satisfactorily. All opinions from service auditors were unqualified for 2013/14 but some matters arising were identified. Management should continue to work closely with the host boards to ensure adequate resolution of the matters identified for improvement.

Other governance work

A review of the board's budgetary control arrangements and a review of the arrangements for maintaining the board's Register of Interests were also undertaken. A number of risks were identified and actions to address them agreed with management.

ICT audit

In October 2013 there was a critical disruption in ICT service provision at NHSGGC which led to officers being unable to access many key systems including the financial ledger. Following a rigorous investigation the root cause of the disruption could not be identified and it remains unclear whether the problem can or will recur. As a direct consequence the Cabinet Secretary commissioned an independent technical assurance review and a review of ICT resilience across all health boards. The board has subsequently implemented all the recommendations from the independent review and this should improve recovery should the problem recur.

As key finance systems were affected by the service outage, we reviewed the business continuity arrangements for a range of finance related functions and considered how the lessons learned from this incident in October 2013 have been integrated into the board's business continuity arrangements. Our report is currently being finalised and we intend to report to management in summer 2014. Our initial view is that business continuity arrangements require to be better integrated and coordinated and that limited progress has been made since similar issues were raised by internal audit in December 2012.

We reviewed the board's arrangements for User Identity and Access Management (UIAM). Our review established that although the board has a variety of policies and procedures in place to manage users' identities and access to systems, the resulting UIAM and user provisioning process is protracted, disparate and reactive. We were particularly concerned to note that generic user identities exist on the clinical applications reviewed. In addition the risk noted by the Information Commissioner in December 2011, regarding user identities that are active when members of staff have left the organisation or are away for extended periods of time, remains. Actions in response to the matters raised were agreed with management and we will follow up progress as part of our 2014/15 audit work.

We also undertook a review of the board's website in light of the eHealth Strategy aim to support people to communicate with the NHS in Scotland. Our review is currently being finalised and will be provided to management in due course.

Arrangements for the prevention and detection of fraud

The board's arrangements in relation to the prevention and detection of fraud and irregularities were found to be satisfactory.

NHSGGC participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the board has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

The national biennial NFI report was issued in June 2014 and reported that a further £16m fraud had been identified in the public sector in Scotland since the last report in 2012.

Arrangements for maintaining standards of conduct and for the prevention and detection of corruption

The arrangements for the prevention and detection of corruption in NHSGGC were found to be satisfactory.

Patient Safety

The Healthcare Environment Inspectorate (HEI) carried out six cleanliness and safety inspection visits to hospital sites in the NHSGGC board area during 2013/14. The inspections resulted in a number of required improvements and recommendations and action plans have been put in place to address the issues raised. Two Care of Older People inspections were also carried out during 2013/14. Of the 31 issues identified, 25 were assessed as not meeting the recognised standards and the board was required to take immediate action. Action plans have been drawn up to ensure corrective actions are taken.

NHSGGC has a board HEI Steering Group to ensure that actions and learning points from each inspection are cascaded to all hospitals within NHSGGC.

Francis Report

The Francis Report into the Mid-Staffordshire Foundation Trust was published in February 2013. It identified a number of serious weaknesses with the Trust failing to listen to the concerns of staff, and patients, about standards of care and safety.

In response to the Francis Report, NHSGGC established a short life

working group to: review the recommendations and identify which of the recommendations were relevant; whether NHSGGC related practices and approaches were consistent with those recommendations; and what further work should be considered to remedy any identified gaps. An action plan was prepared and a further report outlining progress is to be submitted to the September meeting of the Quality and Performance Committee.

Vale of Leven Hospital Inquiry

The Inquiry was set up by Scottish Ministers to investigate the occurrence of C.difficile infection at the Vale of Leven Hospital from 1 January 2007 to 1 June 2008. The enquiry, which heard evidence from witnesses in the period June 2010 to June 2012, was due to report in April 2014. However, as a result of a number of delays, there is currently no date set for publication. *(Action point 6)*

Boundary Changes

Due to a boundary change aligning the NHSGGC/NHS Lanarkshire boundary with that of local government, on 1 April 2014 around 78,000 patients moved from the NHSGGC area to NHS Lanarkshire. The Scottish Government's funding allocation process has taken account of the financial implications and GPs affected transferred their contract as appropriate.

Glasgow Community Planning Partnership (CPP)

An audit report on Glasgow CPP was published in March 2014. While the review concluded that the CPP has generally made good progress against the five key themes identified in its last Single Outcome Agreement, Glasgow is still not performing as well as other major Scottish cities and comparable English cities. This reflects the scale of the social and economic challenges that it continues to face. The Chief Executive intends to present the report to the board and consider any further action to support the community planning partnership in taking forward its improvement agenda.

Integration of adult health and social care

The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The Act offers some flexibility on the partnership arrangements for the governance and oversight of integrated health and social care services. The integration will be complex and challenging and the board will need to engage at the highest level with councils in its area to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose. This will require:

- The establishment of a local integrated partnership and related governance arrangements
- Integrated budgets for health and social care
- Joint responsibility for strategic and locality planning in the area served.

NHSGGC has approved arrangements for five Integrated Joint Boards (IJBs) and agreement with the remaining CHP (Renfrewshire) has yet to be reached. The shadow IJBs will operate under the NHS and council governance arrangements currently in place for the year 2014/15. The IJBs will become operational on 1 April 2015.

Equality Act 2010

The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. To allow the public to assess an organisation's performance on equality, the Act requires publication of information on actions taken and the progress made to achieve equality outcomes. The board must review its outcomes and publish a review by April 2015.

The board's strategy "A Fairer NHS Greater Glasgow & Clyde 2013-16 - meeting the requirements of Equality Legislation" gives information regarding progress on mainstreaming equalities to date, steps being taken to comply with the Equalities Act 2010 and other relevant legislation and how the organisation will meet a variety of quality outcomes in the 2013-16 period. In April 2014 the board produced its annual equalities monitoring report on the activities undertaken in relation to the strategy.

Outlook

Integration of adult health and social care

Integration of health and social care is a complex and challenging process. The Scottish Government has commenced work on the Regulations relating to the Act and the underpinning statutory guidance although this work will not be completed until late 2014.

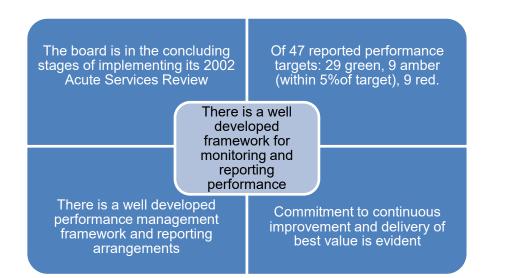
When a final set of regulations is produced, the Scottish Government will consult with partnerships before they are presented to the Scottish Parliament.

The lead-in time for integration is gradually reducing thereby adding further pressure on the board and its local authority partners to deliver. Health and social care integration will be implemented locally from 1 April 2015 while full integration arrangements must be in place by 1 April 2016. With Renfrewshire Council's arrangements not yet finalised, there is a risk that integration arrangements may not be fully developed by the required timescales. *(Action point 7)*

Organisational Review

The board has indicated that 2014/15 will see changes to all operational management structures, due partly to the creation of the Integrated Care Partnerships but also the opening of the new South Glasgow Hospitals and closure of other sites. The post of Chief Operating Officer has been vacant since August 2013 and the post of Director of Finance will shortly become vacant in August 2014. The Director of Human Resources is also departing later in the year. We are aware that the Chief Executive has undertaken a review of the structures in place and that separate reviews of the Human Resources and Finance functions are being concluded. In addition there are a number of experienced non-executive members whose tenures will expire in the short term. There is a risk of loss of experienced senior personnel and protracted uncertainty at a time of substantial change. This may impact on staff morale which may affect successful service delivery and achievement of performance targets. (Action point 8)

Best value, use of resources and performance



Arrangements for securing best value

Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

NHSGGC is committed to best value and has arrangements in place to help ensure continuous improvement. To assist the accountable officer in forming his view on arrangements to secure best value, a self assessment schedule is completed by executive directors annually. The challenge however is in demonstrating continuous improvement through the delivery of improved performance and outcomes.

We will continue to monitor the board's arrangements for demonstrating its commitment to best value and continuous improvement.

Use of resources: workforce

Workforce planning forms one of the strategic arms of the corporate planning process which supports the Local Delivery Plan. The board agreed a 2013/14 workforce plan which reflected an increase in the whole time equivalent workforce numbers across the organisation. However, the 2014/15 plan (which is being finalised) will require to reflect any impact of the move to the new hospitals and the integration of health and social care. There remain a number of challenges in relation to workforce change which could affect the delivery of quality services.

The most recent NHS national staff survey was carried out during 2013. The average national participation rate was 28% whereas in NHSGGC the response rate was only 20% and in 33 of the 40 positive questions, NHSGGC were below the national average. The board's own 'Facing The Future Together' 2012 staff survey had around 4,000 respondents out of an intended 38,000 which represents a participation rate of 11%.

The results of these surveys were reported to the Staff Governance Sub Committee and a working group has been set up to produce and monitor a board-wide action plan. Regular updates are being provided to the sub-committee.

In response to the national objective to reduce management posts by 25%, the board has committed to reducing the total number of 262 senior manager posts by 66 within five years (from April 2010). The board remains on target to achieve this by 31 March 2015.

As with other health boards in Scotland, NHSGGC faces a challenge in achieving the 4% national sickness absence target. The average sickness absence rate over the year to 31 March 2014 was 4.9% which is the same as the previous year. The board continues to progress a range of approaches in order to reduce absence levels including detailed plans for each division.

Service Redesign

NHS bodies need to deliver high quality services in a challenging financial environment which requires them to focus on the design and sustainability of services. The Acute Services Review (ASR), conducted in 2002, identified the need for service redesign. This has resulted in the completion of two new ambulatory care hospitals, the new Beatson Oncology Centre and a new laboratory block. The final stage of those programmes is due to conclude in 2015 with the opening of the new South Glasgow Hospitals (one for adults, and one for children) at the current Southern General Hospital site. Once the new hospitals are operational the Western and Victoria Infirmaries and Mansionhouse Unit will close and the Royal Hospital for Sick Children will move to the new South Glasgow campus.

Last year the board began a review of clinical services which will

redefine the pattern of services from 2015. This review 'Clinical Services Fit for the Future', is considering the best ways to deliver safe, sustainable and patient-focused care that will achieve the best health outcomes for patients. This review aims to assist the board in responding to the national 2020 vision whereby everyone will be able to live longer healthier lives at home or in a homely setting within a healthcare system.

The impact of all service developments are closely monitored by the board and QPC to ensure that they continue to contribute to improving the patient experience whilst delivering best value.

Performance management

Performance management arrangements are based on Local Delivery Plans (LDPs), which are structured around four key ministerial objectives: health improvement, efficiency, access, and treatment (HEAT). NHS boards are required to agree their planned levels of performance against each of the key measures with the SGHSCD.

In addition to reporting to SGHSCD, the board has a well established internal performance management framework to monitor and report on performance, including:

- bi-annual organisational performance reviews for all business areas with action plans to address areas for improvement
- performance reporting to corporate management
- reports on waiting times and access targets at each meeting of the board

- regular reporting to the QPC on HEAT and other performance targets
- individual performance appraisal of all directors and senior managers.

In addition, the board's policy and planning frameworks include a quality framework that sets out the required outcomes and actions to deliver a quality service. These policy and planning frameworks are used to produce annual development plans for each part of the organisation. The board is also subject to an annual review process by the SGHSCD.

National performance audit reports

A summary of national performance audit reports issued during the year is included in Appendix I.

We have raised previously that a number of Audit Scotland national reports have not been considered by any committee of the board. These are:

- Health Inequalities (published December 2012)
- Managing Scotland's Public Sector Workforce (published November 2013).

These reports provide an opportunity for the board to compare itself against recognised good practice and can assist in the demonstration of best value. The appendix also refers to a number of other national reports which have been published more recently and should be considered by the board during 2014/15.

Management of patients on NHS waiting lists

Audit Scotland carried out a review of waiting times across the health service in Scotland following reported misuse of patient unavailability codes at NHS Lothian. The review, reporting in February 2013, recognised the need for independent assurance on the management of waiting times to restore public confidence in the system.

A follow up review was published in December 2013. The review found that the trend of reducing use of unavailability codes noted in the original report continued during 2012 and 2013. The review also noted that boards were improving controls and audit trails in the systems used to manage waiting lists. In particular, there is a stronger focus on how boards record and monitor the reasons for patient unavailability.

The board's Internal Auditors (PwC) reviewed progress against agreed recommendations. The follow-up review was considered and noted at the Audit Committee on 5 March 2014. The report highlighted that the board was not meeting all of its targets on waiting times.

Overview of performance targets in 2013/14

The board receives regular performance reports on progress towards achieving the key performance targets set by the Scottish Government (HEAT targets and standards) and local targets. In addition, performance is subject to detailed scrutiny by the QPC.

As at July 2014, of the 47 indicators which have measurable targets, 9 measures have been assessed as not being met (red), 9 are within 5% of target (amber) and 29 have either met or exceeded the target (green). Actions being taken to address performance issues are provided to the QPC who consider whether the intended action is reasonable.

Explanations for a number of those measures not being met are included within the strategic report section of the financial statements. Areas of particular concern to the QPC include:

18 week referral to treatment

The board is required to deliver 90% performance against the 18 week Treatment Time Guarantee. Performance for April 2014 was 90.6% and to date the board has not missed the target. There are however some particular areas of pressure, for example Ophthalmology, where specific action is being taken to address maternity cover and increasing referral levels by using locum support and extending the roles of Optometrists and Orthoptists.

Cancer referrals and treatments

The board missed both the 62 day and 31 day cancer referrals and treatment targets in January - March 2014 (90.9% of the 62 day and 94.5% of the 31 day patients were treated compared to the 95% target). Following a review by the SGHSCD Cancer Performance Support Team, an action plan was prepared in order to assist achievement of the target. However as at April 2014 performance had again declined.

Staphylococcus aureus bacteraemia (SABs)

While the board continues to meets expected performance in relation to C.Difficile infection, the identification of MRSA/MSSA bacteraemia cases breached the target during the year. Since April 2013, the board had been reporting an upward trend with the most recent validated results confirming a SAB rate of 36.8 cases over the period October to December 2013 compared to the target of 28. However, over the period January to March 2014, the un-validated rate has fallen to 26.7 cases. The reasons for the increase remain unclear despite the board and Health Protection Scotland undertaking a full review to try to identify possible causes and influences.

Unscheduled care

The board has not been meeting its 95% target for people being treated at A&E within 4 hours. As at April 2014, 89.2% of patients were seen within this target. The main reason for patients waiting beyond the four hours has been as a result of waiting for a bed. There has also been evidence that fluctuating demand for A&E services can lead to "spikes" such as the events at the Victoria Infirmary in June 2014, when there were 40% more attendances than average with no specific reason attributed by the board. The board has updated its Local Unscheduled Care Action Plan (LUCAP) to reflect measures the board wants to take to address the unscheduled care issues.

Delayed discharges

Delayed discharges are in excess of the target. As at May 2014, 33 patients were delayed in excess of 28 days (target 0 patients) and 86 patients were delayed in excess of 14 days (against a trajectory

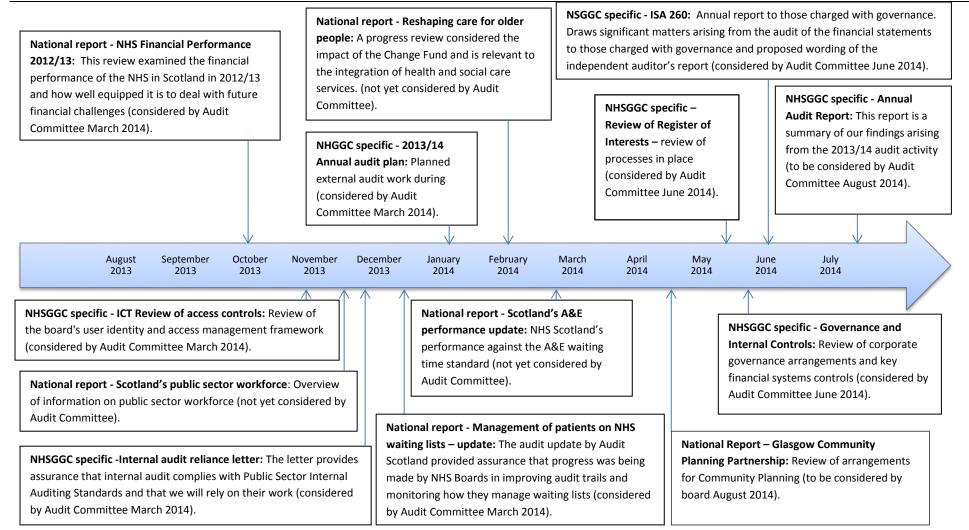
of 45 patients). The board continues to work with its local authority partners in order to introduce measures to address the causes of the delays.

Outlook

In common with other NHS boards, NHSGGC faces increasing demand for improved services arising from changing demographics, lifestyles, health inequalities and increasing public expectations. At the same time it faces cost pressures arising from the availability of new drugs, treatments and technologies and the impact of health service specific inflation. It will be a continuing challenge for the board to respond, including consideration of service redesign to improve quality, while also making services more efficient and sustainable. (*Action point 9*)

The opening of the new SGHs in 2015 is a redesign of NHSGGC's services on a large scale involving the transformation of a number of existing processes. The board is already developing and piloting some of these in existing sites, for example "self check-in" at outpatient clinics. The expected impact of the new SGHs relies on the successful migration of staff and services together with the implementation of staffing and bed models which, in turn, rely on the need to keep delayed discharges to a minimum. It is also, however, likely that performance against national HEAT targets may dip in the period of transition to the new hospitals.

Appendix I – Summary of Audit Scotland reports 2013/14



Appendix II - Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audi	t Risk	Assurance procedure
1.	Endowments. The board is required to consolidate the NHS Endowment Funds with its financial statements. There is a risk that a financial misstatement will occur in the consolidation process.	 The NHS Greater Glasgow and Clyde Endowment Funds were consolidated into NHSGGC's financial statements in 2013/14 in accordance with IAS27 and as required by the NHS manual of accounts. The basis of consolidation was merger accounting. We undertook procedures to assure ourselves that we could place reliance on the work of the component auditor. The external auditors of NHSGGC Endowment Funds issued an unqualified audit opinion which was reported to the Audit Committee on 17 June 2014. The Endowment Funds Accounts were subsequently approved by the board on 24 June 2014.
2.	Accruals. In previous years there have been challenges obtaining adequate evidence to support year end accruals. There is a risk that a financial misstatement will occur if accruals are raised inappropriately.	We held early discussions with management in order to discuss potential issues arising. We extended our audit testing and identified a number of matters which required discussion with management. <i>Refer to page 11 of this report.</i>
3.	Provisions. The board has disclosed significant provisions in its financial statements. Due to their subjective nature, there is a risk that provisions could be incomplete, not valid or incorrectly valued.	We reviewed the accuracy, validity and completeness of the provisions and tested the year end balances substantively. We identified an element of the restructuring provision which could not be adequately substantiated and which was adjusted for in the financial statements.

Audi	t Risk	Assurance procedure
4.	 Fraud. Income from external sources can present a risk of fraud. Particular areas for concern include accounts receivable. There is also a risk of material misstatement due to the potential for fraudulent claims from practitioners and false exemption claims. 	We undertook substantive testing of external income as part of our interim audit work. Our testing focussed on other income received by the board and no matters arising were identified. We monitored the processes in place by both the board and PSD on behalf of the board. We also relied on the auditor of NHS National Services Scotland (NHS NSS) who reviewed the work of the service auditor of Practitioner & Counter Fraud Services (PCFS). The auditor of NHS NSS noted that 'I am able to conclude from my review of the service auditor's work that, based on the good quality of the audit files reviewed, the reporting of issues and progress reports presented during the year to the NSS Audit and Risk Committee, that Scott Moncrieff's service audit work on PCFS is satisfactory and that assurance can be placed thereon.'
5.	Financial position. NHSGGC faces challenges in dealing with a range of actual and anticipated funding and cost pressures. There is a risk that the board fails to achieve its planned year end financial position.	We reviewed the budgetary control arrangements in place at board level and reviewed regular monitoring reports and returns to the SGHSCD. All financial targets were met in 2013/14. <i>Refer to page 13 of this report.</i>
6.	ICT. The cause of a recent critical disruption in ICT service provision could not be identified. There is a risk that another instance of unplanned service outage could impede delivery of services or the production of the annual accounts.	As a direct consequence the Cabinet Secretary commissioned an independent technical assurance review and a review of ICT resilience across all health boards. The board has subsequently implemented all the recommendations from the review and this will improve recovery should the problem recur. We have reviewed business continuity arrangements within selected systems. A report outlining our findings will be presented to the Audit Committee shortly. <i>Refer to page 18 of this report.</i>

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Audi	t Risk	Assurance procedure
7.	Website review. The Person-centred eHealth Strategy aims to improve the information available to patients. There is a risk that the board's website and content management does not allow for easy access to current information.	
8.	Equal pay. NHSGGC, as with other boards, has not been able to quantify the extent of its liability for Equal Pay claims. Whilst the risk is reducing, there remains a risk that these liabilities will have an impact on the board's financial position.	As at 31 March 2014 the National Health Service in Scotland has received in excess of 5,800 claims for equal pay of which 2,369 relate to NHSGGC. Such claims are referred to the NHS NSS Central Legal Office (CLO). As the board is unable to quantify the value of any potential claims, it has been agreed that appropriate reference will be included within the financial statements as unquantified contingent liabilities. <i>Refer to page 10 of this report.</i>
9.	Governance arrangements. The processes which provide the accountable officer with the necessary assurances have been developing. There is a risk these processes are not operating effectively.	We reviewed the processes in place to ensure assurance is received by key officers. We also reviewed the processes for compiling the register of interests. Matters identified were included within our management letter which was submitted to the audit committee in June 2014. We are able to record that all internal control checklists and assurance statements were completed and returned on a timely basis.

Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/11	 Equal pay NHSGGC, in common with other NHS bodies, has not been able to quantify the extent of its liability for compensation in respect of equal pay claims. Risk Settlement of equal pay claims could have a significant impact on the board's future financial position. Recommendation The board should continue to work with the CLO to establish its potential exposure to successful claims for compensation payments. 	The Health Board will continue to work with the Central Legal office in respect of Equal Pay claims and will provide for any liabilities when advised by Central Legal Office.		March 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/11	Accruals A number of projects were inappropriately accrued at year end and adjusted for in the final accounts. Risk There is a risk that if expenditure is not accounted for in the correct accounting period, there is a loss of transparency in financial reporting. This has implications for subsequent resource allocation. Recommendation The board should review its processes for accruing expenditure to ensure that only valid obligations are accrued.	A review of the accrual process will be undertaken during 2014/15 and this will enable a stricter policy to be implemented for the year-end annual accounts.	Head of Financial Services	May 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/12	 Move to new SGHs A major reconfiguration of service will take place when the new South Glasgow Hospitals open. Risk There are a number of risks associated with the move. These include Additional costs from the double running of hospitals The impact on staff as they co-locate with other staff and new ways of working are introduced The potential impact on performance. Recommendation The board should ensure that communication channels are maintained with staff, double running should be kept to a minimum and that satisfactory performance monitoring processes are maintained and any impact on performance is subject to timely corrective action. 	The Board has established a group tasked with overseeing all aspects of the move into New South Glasgow Hospitals. The "On the Move" project includes directors, managers and staff from a number of disciplines including Finance, Workforce Planning and Communications and regular updates are available in staff news magazines and team briefs. Work will shortly commence to identify and monitor double running costs.	Chief Operating Officer /Director of Finance	June 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/13	Savings Target The delivery of the cost savings plan for 2014/15 and subsequent years will continue to remain challenging. £4.2 million of the 2014/15 savings target has not yet been identified. Risk Whilst the board is confident that it will be able to identify these further savings during 2014/15, there remains the risk that the required efficiency savings will not be achieved. Recommendation The board should ensure that formal plans are produced covering all the required savings for 2014/15.	The savings plan targets for 2014/15 and beyond will be extremely challenging but the Health Board will continue to monitor this area in line with previous years to ensure targets are achieved. Formal plans to secure the outstanding full year savings target will be in place by 31 March 2015.	Director of Finance	March 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/14	Agency workers Spending on agency/bank staff increased significantly (21%) in 2013/14. We recognise that the use of such staff provides flexibility to the care system and provides temporary cover for vacancies and staff absence. Risk Continued reliance on agency workers to this extent could have a significant impact on the cost and quality of care, jeopardising the board's plans to achieve the savings required for longer term sustainability. Recommendation The board should, along with workforce plans, continue to monitor the cost of agency staff and manage the requirement with a view to reducing their cost.		Director of Human Resources / Operational Directors	March 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/19	Vale of Leven Hospital Inquiry			
	The Vale of Leven Hospital Inquiry may be reaching a conclusion during 2014/15. Given the profile of this Inquiry it is essential that NHSGGC respond as soon as possible and take appropriate action.	The Board will ensure there is an appropriate response to the Vale of Leven Inquiry findings when the final report is published.	Chief Executive	To be confirmed when report is published.
	Risk			
	There is a risk that the board does not respond and react timeously to the Inquiry findings especially given the other major service changes currently underway.			
	Recommendation			
	In anticipation of the publication of the Inquiry findings, the board should ensure it is able to take action as appropriate.			

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
7/21	 Health and social care integration The integration of health and social care services in Scotland requires to be implemented from 1 April 2015. Risk There is the risk that the board and its local authority partners will not be fully prepared by 1 April 2015. This could adversely impact on service delivery. Recommendation The board should continue to work closely with its partners to prepare for this significant reform of health and social care services. 	aspects of integration are being implemented as part of a collective process led by the 7 Finance Directors.	Chief Executive/Director of Corporate Planning & Policy (Board lead for Integration) & Director of Finance	April 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
8/21	Organisational review A major review of the organisation and its management structures is currently being undertaken as a result of the integration of health and social care services and the move to the new SGHs. Risk There is a risk of loss of experienced senior personnel and protracted uncertainty at a time of substantial change. This may impact on staff morale which may affect successful service delivery and achievement of performance targets. Recommendation The board should ensure that communication channels remain open with all staff during this turbulent period.	minimum impact on those senior staff likely to be impacted by the proposals.	Chief Executive / Director of Human Resources	March 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
9/26	 Performance against HEAT targets and standards The board did not achieve all its performance targets in 2013/14. Risk There is a risk that in a climate of reducing funding and competing priorities, performance targets are not achieved or maintained. Recommendation Monitor investment in new initiatives aimed at improving access targets and determine whether specific areas / specialties require more detailed scrutiny or additional actions to be taken. 	Performance against targets will continue to be reviewed in detail at the Board's Quality & Performance Committee and any issues arising will be identified and action plans implemented to address them. Investment will be prioritised when the Board's financial plan for 2015/16 is developed.	Chief Executive / Director of Finance	March 2015

NHS Greater Glasgow and Clyde

2014/15 Annual audit report for the Board of NHS Greater Glasgow and Clyde and the Auditor General for Scotland

June 2015

The Auditor General for Scotland appoints external auditors to NHS bodies in Scotland. (<u>www.audit-scotland.gov.uk/about/ac</u>)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (<u>www.audit-scotland.gov.uk</u>)

The Auditor General has appointed Gillian Woolman as the external auditor of NHS Greater Glasgow and Clyde for the period 2011/12 to 2015/16.

This report has been prepared for the use of NHS Greater Glasgow and Clyde and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the health board. The information in this report may be used for Audit Scotland's annual overview report on the NHS in Scotland published on its website and presented to the Public Audit Committee of the Scottish Parliament.

Key contacts

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Key messages

Audit of financial statements	 We have issued an unqualified opinion in the independent auditor's report that the 2014/15 financial statements show a true and fair view.
Financial management and sustainability	 All financial targets in 2014/15 were met. A surplus of £1.2m was achieved against the Revenue Resource Limit. Total savings of £61.4m were achieved, all on a recurrent basis. Financial management is strong and soundly based.
Governance and transparency	 The board has sound and well-established governance arrangements in place. However new arrangements are being established to reflect the implementation of integrated joint boards and the opening of the new South Glasgow Hospitals and consequent closure of a number of acute sites. Systems of internal control operated effectively during 2014/15. Management have responded swiftly to one matter of concern which was raised in relation to the confirmation of agency payments. The board has an effective internal audit function and robust anti-fraud arrangements. Progress is being made by each of the integrated joint boards. Five of the six integrated joint boards will be legally established on 27 June 2015.

Best Value	 The board has a well developed performance management framework in place. The Quality and Performance Committee receives regular updates on all aspects of performance and actions being taken to improve performance. It was reported that, for the month ending March 2015, NHSGGC was the best performing Scottish health board in relation to the outpatient maximum 12 week wait from referral. Of the 27 HEAT targets reported, 13 met the targets, 3 were within 5% of achieving the target and 10 missed the target (one remains in progress). The board is making progress in addressing HEAT targets although there have been some areas of deterioration.
Outlook	 The migration to the new South Glasgow Hospitals together with the resultant closure of a number of sites has led to a major change in the delivery of services. The successful implementation of ward bed and staffing models and the achievement of delayed discharge targets are necessary for performance targets to be achieved. The board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less while at the same time having to make major changes to service delivery to reflect the Scottish Government's 2020 Vision and health and social care integration. Achieving sustainability in the medium term will require innovation and vision to design and deliver the services needed to serve the future needs of citizens. Efficiency savings and the recognition of new or increased income are necessary in order to bridge the funding gap and achieve the forecast breakeven position.

Introduction

- 1. This report is a summary of our findings arising from the 2014/15 audit of NHS Greater Glasgow and Clyde (NHSGGC). The report is divided into sections which reflect our public sector audit model.
- 2. The management of NHSGGC is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
- 3. Our responsibility, as the external auditor of NHSGGC, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
- 4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
- A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports,

summarised at **Appendices II and III**, include recommendations for improvements.

- 6. Appendix IV is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that NHSGGC understands its risks and has arrangements in place to manage these risks. The board should ensure that it is satisfied with proposed actions and has a mechanism in place to assess progress and monitor outcomes.
- 7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
- 8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	 We have completed our audit and issued an unqualified opinion that the financial statements of NHSGGC for 2014/15 give a true and fair view of the state of its affairs and of its net operating cost for the year.
Regularity of income and expenditure	 In our opinion, in all material respects the expenditure and income in the financial statements was incurred or applied in accordance with relevant legislation and guidance.
Other information	 We review and report on other information published with the financial statements, including the Management Commentary, Governance Statement and Remuneration Report. We have nothing to report in respect of these statements.
Consolidation template	• The board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government by 30 June 2015.

Submission of financial statements for audit

- 9. We received the unaudited financial statements on 11 May 2015, in accordance with the agreed timetable. The working papers were of a high quality and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.
- 10. We assessed NHSGGC's 2013/14 financial statements against the Good Practice Note "Improving the Quality of NHS Accounts". We are pleased to note that only a few minor issues were identified and these were discussed with the Assistant Head of Financial Services who agreed to consider their impact on the 2014/15 financial statements.

Overview of the scope of the audit of the financial statements

- Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the audit committee on 24 February 2015.
- 12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

- 13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which either involved a high degree of judgement or had significant impact on the financial statements. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix I sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
- 14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

- 15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
- 16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that we were able to revise our original planning materiality for 2014/15 to £30.3m (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £11.4m, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

Evaluation of misstatements

- 18. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the financial statements in respect of a number of instances. There was no impact on either net operating costs or the balance sheet. None of these amendments were material.
- 19. A number of other misstatements were identified which were not processed through the financial statements by management and have been classified as unadjusted misstatements. The most significant of these items related to:
 - £2.377m (reduction in accruals) relates to a number of items of expenditure which more correctly relate to 2015/16. These mainly relate to funding received in relation to specific health programmes which had not been spent or committed by the year end

- £2.168m (reduction in accruals) relates to records of goods having been received prior to 1 April 2014 but where no invoices have yet been received and for which there is no evidence in support of the accrual
- £0.770m (increase in accruals) to incorporate expenditure which should have been charged to 2014/15
- £0.495m (increase in accruals) to reflect an increase in the untaken holiday pay accrual
- £0.171m (reduction in provisions) in respect of other provisions for which there was no supporting evidence.
- 20. While we request that all errors be corrected, management considered that these misstatements are not material to the financial statements. This decision was supported by those charged with governance having taken account of advice from officers.

Significant findings from the audit

- 21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
 - Significant difficulties encountered during the audit
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management
 - Written representations requested by the auditor

- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
- 22. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
Equal pay. In previous years, we commented that the board, on advice from the Central Legal Office (CLO), was not able to provide any financial quantification of equal pay claims. Consequently, equal pay claims were disclosed as an unquantified contingent liability in the accounts.	The provisions note in the board's accounts includes an amount in respect of the board's estimated liability arising from equal pay claims and the board have followed appropriate guidance.
We note that there have been developments in 2014/15 including the offer for settlement in relation to certain claims. Based on this new information, and advice received from the CLO, the Director of Finance of NHS Scotland has advised that equal pay claims should now be included as a provision in the accounts of NHS boards. NHSGGC has been advised of the estimated value of the provision.	
Additional contribution to the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). The financial statements include a provision of £96.25m in relation to CNORIS. NHS boards record the liability to pay, as advised by the Central Legal Office, and the associated reimbursement, to be received through the CNORIS scheme. Revised guidance was issued during 2014/15 which required boards to recognise their contribution to the national CNORIS scheme. As a consequence a further provision has been recognised in the 2014/15 financial statements for £96.25m and a prior year adjustment made.	The board correctly processed the opening balance and prior year adjustments in line with IAS 8 and as advised by the Scottish Government. The board has received AME funding to cover the accounting changes so that there is no impact on the board's outturn position.

Issue	Resolution
Revaluation of land and buildings. A full revaluation of land and buildings was undertaken in 2013/14. However a decision was taken by management to move towards a five-year rolling programme of revaluations. With the opening of the new South Glasgow Hospitals, these assets together with a number of other smaller land and property assets, were subject to revaluation in 2014/15. As a consequence, the new hospitals were impaired by £37.8m. A formal plan has yet to be agreed with the valuer to ensure that all assets will be revalued over the five year cycle. This was highlighted in our report 'Review of property, plant and equipment' submitted to officers in May 2015.	A formal plan is being agreed with the District Valuer to value approximately 20% of the estate over each of the next four years to ensure that the estate will have been fully revalued within the five year timescale. This plan will apply revaluation policies to each asset within a given class of assets.
Non current assets. We had previously reported that in advance of the move to the new hospitals, all sites identified for closure had been subject to a review for impairment and we were satisfied that the residual values reflected the remaining economic useful lives of the hospitals affected. During 2014/15 the Victoria, Mansionhouse and Southern General Hospitals and the Royal Hospital for Sick Children were further impaired to reflect a remaining useful life of 6 months (until September 2015). However we are aware that some elements of these hospital sites may remain operational while an upgrade is effected to the Gartnavel General site to relocate some patient services. The valuation of some assets therefore may not reflect the ongoing use of the asset. We have therefore asked management for assurances that the non current assets are properly stated in the financial statements and that there is no material misstatement. <i>(action point 1)</i>	While we are satisfied with the position as at 31 March 2015, we have sought assurances from management that residual lives and values are fairly stated based on the most up to date operational plans of the board.

Issue	Resolution
Trades payables – accruals. Our audit review identified a number of year end accruals for which no goods or service had been received or where evidence was not available to support the accrual. In addition we also identified specific funding from the SGHSCD for projects, where, due to the nature of those projects, not all of the funding had been spent by year end. We are able to record that the quality of evidence provided has improved in 2014/15. As a number of these accruals were unsupported, management agreed that accruals are overstated by £2.4m. We have discussed with the Director of Finance the need to review this area in conjunction with the SGHSCD and NHSGGC finance staff to ensure that liabilities are only accrued when there is a constructive obligation and that funding for special projects better reflects the planned phasing of expenditure. <i>(action point 2)</i>	We have reviewed the associated working papers and are able to accept the evidence provided. Management have advised that they will continue to improve the working papers in support of the accruals.
Goods received not yet invoiced (GRNIs). Included within trade payables are accruals for GRNIs. Our audit testing identified a number of GRNIs which referred to goods received in prior years. While officers could provide some evidence to support a number of the accruals, they were unable to provide sufficient evidence to support £2.2m. We have asked for assurances that the remaining amounts included within trade payables are reasonable and reflect the proper and full liability to pay. We have also discussed the need for officers to undertake a full review of the underlying systems and processes which provide the information for inclusion within the financial statements. <i>(action point 3)</i>	In addition to our review of the associated working papers, we have asked management for assurances that the purchasing system used to calculate the accruals provides a fair reflection of the actual liability.

Issue	Resolution
Trades payable: holiday pay . The supporting documentation for this accrual was received late and at £25.7m is £0.5m more than the figure included in the draft annual accounts. The misstatement of £0.5m has been included in the schedule of unadjusted errors. Through our audit work we gained assurance that there has been no change to the methodology used in the calculation of the accrual. We are dependent on management's extrapolation of a sample to estimate the average level of leave carried forward at the year end.	We have reviewed the calculation provided and have assessed the estimation basis as being reasonable. In addition, we have asked management for assurances that the estimation basis is consistent with prior years and is a fair reflection of the actual liability.
Endowment funds. IAS27 <i>Consolidated and Separate Financial</i> <i>Statements</i> requires host boards to consolidate endowment funds established by the National Health Service (Scotland) Act 1978 into their financial statements. The endowment funds figures used in the consolidation process were based on a draft set of endowment fund accounts. Whilst the audited accounts have not yet been published, the auditors of the endowment funds have completed their audit. We await confirmation that there are no matters identified that would impact on the figures consolidated into the board's accounts. The audited accounts for the endowment funds are due to be signed on 23 June 2015.	We await sight of the wording of the audit certificate on the endowment funds before signing the group audit certificate.

Issue	Resolution
Heritage assets. Heritage assets ought to be included in the financial statements and the board is currently showing none. A review of heritage assets has been ongoing across a number of NHSGGC sites for 18 months. While management do not consider there to be any material heritage assets, it is essential for this review to be concluded and for the board to demonstrate it is fulfilling its stewardship responsibilities in accordance with the Government Financial Reporting Manual. <i>(action point 4)</i>	Management have agreed to assess the findings of the review undertaken so far and ensure that the review is concluded as soon as practicable.

Future accounting and auditing developments

Revisions to the financial reporting manual

- 23. The financial statements of the board are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
 - The adoption of IFRS 13 Fair value measurement
 - Restructuring the annual audit report.
- 24. (IFRS) 13 Fair value measurement. Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 FReM requires surplus assets to be measured at fair value in accordance with IFRS 13. The board will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
- 25. Restructuring of the annual report. The 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
 - a performance report which will give a fair, balanced and understandable analysis of the board's

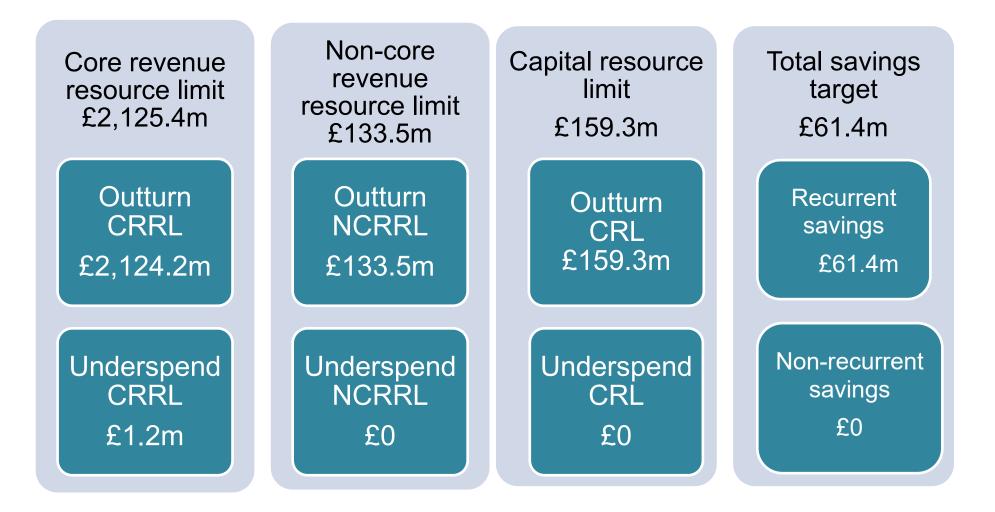
performance and will include an overview section and a performance analysis section

- an accountability report incorporating the following three main sections:
 - a corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
 - a remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
 - a parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Health and Social Care Integration

- 26. Integrated Joint Boards (IJBs) will be accountable for overseeing the provision of functions within the scope of health and social care integration on, or before, 1 April 2016.
- 27. IJBs will be required to produce financial statements in compliance with the Code of Practice of Practice on Local Authority Accounting in the UK.

Financial management and sustainability



Financial management

- 29. In this section we comment on the NHSGGC's financial outcomes and assess the board's financial management arrangements.
- 30. Budget funding is agreed with the Scottish Government Health and Social Care Directorates (SGHSCD). It is a statutory requirement for the board to ensure expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

- Health boards are required to work within the resource limits and cash requirements set by the SGHSCD. The board's final RRL (£2,259.0m) and CRL (£159.4m) were agreed with the SGHSCD on 29 April 2015.
- **32.** The board achieved all of its financial targets in 2014/15 and delivered total efficiency savings of £61.4m in line with planned efficiencies for 2014/15.
- 33. The board had budgeted to break-even against its RRL in 2014/15. The actual out-turn position was a cumulative surplus of £1.2m. Until February 2015 the board had been reporting an overspend whilst forecasting a year end break even position. However in March 2015 the underspend rose from £0.1m to £1.1m. The finance report presented to the Quality and Performance Committee in May 2015 noted that the board was able to identify a further

 \pounds 5.0m of in-year funding to meet the commissioning costs of the new hospitals during the early months of 2015. Actual expenditure was \pounds 0.85m less. This additional underspend was discussed with the SGHSCD.

- 34. The SGHSCD agreed that the board can carry forward the £1.2m surplus. Together with the £10m surplus banked in 2013/14 for double running costs during the migration to the new sites, this gives the board some additional flexibility in managing its finances. The draft financial plan for 2015/16 reflects the application of £10m transitional funding.
- **35.** The board achieved its savings target of £61.4m in 2014/15 on a recurring basis, of which £32.9m were cash releasing savings and £28.5m were non-cash releasing.

Capital expenditure 2014/15

- 36. The board spent a total of £159.3m on capital projects during 2014/15. This amount was within its final CRL of £159.4m; during the year £15m was returned to the SGHSCD on the understanding that the funding would be available for spending in 2015/16.
- 37. The key area of the 2014/15 programme was the continuing work on the new South Glasgow Hospitals project. £115m was spent on this project during the year, giving a total of £797m spent to date out of the overall budget of £842m.
- 38. The total project is now largely complete and within budget. The date for completion was brought forward to the end of January 2015 and staff started to transfer in April 2015. Patients from the

demitting hospital sites have transferred during April and May 2015 on a rolling basis with the final service transferring (from the Royal Hospital for Sick Children at Yorkhill) in mid June.

- 39. Approximately £75m remained within assets under construction at 31 March 2015 and was represented by the Administration Block, the Teaching and Learning Centre and equipment. A further £45m is reflected in the note to the accounts as capital commitments. The construction of the Teaching & Learning Centre (a joint project with the University of Glasgow) and the Administration Block remain on programme and on budget.
- 40. There have been some early issues identified as the new hospital beds in and deals with the transfer in of staff and patients and variable volumes of activity. In addition, there continue to be matters raised in relation to transport links and car parking. The board will be continuing to address public concerns until staff and service users adapt to their new surroundings.
- **41.** As previously noted, the board has carried forward a surplus of £11.2m to fund double running costs for the migration to the new hospital. Until the new hospitals become fully operational there may be a diminution in operational performance.
- Expenditure during 2014/15 on other major capital projects included eHealth ICT (£5.0m), East Pollokshields Health Centre (£2.4m), older people's mental health project (£3.3m) and medical equipment (£14.7m).

Backlog maintenance

- 43. In March 2015, the annual State of NHS Scotland's Assets and Facilities report was published by the Scottish Government. It identified backlog maintenance of £797m across Scotland which is required in order to bring assets to a satisfactory condition. NHSGGC accounts for 24% of this total. The report acknowledges that this will reduce by some £12m once the new hospitals are fully operational and the older buildings vacated and closed.
- 44. Of the 10 NHS Scotland hospitals with the highest total cost for backlog maintenance (£290m), NHSGGC has 3 hospitals with backlog maintenance costs of £97m. NHSGGC has plans in place to address this backlog as part of an ongoing investment programme. Prioritisation of investment on these properties would make a significant contribution to reducing NHS Scotland's backlog maintenance burden.
- 45. In recognition of the backlog maintenance, a transfer from capital to revenue funding of £3m was agreed by the SGHSCD in 2014/15. There remains a challenge in ensuring the older estate remains fit for purpose.

Financial management arrangements

- **46.** As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the Director of Finance has sufficient status to be able to deliver good financial management

- standing financial instructions and standing orders are comprehensive, current and promoted within the board
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.
- **47.** The board's standing financial instructions and standing orders are updated annually and we are able to conclude that they are comprehensive and current. The board's standing financial instructions and standing orders are also available to all staff on NHSGGC's intranet.
- 48. Financial monitoring reports (both revenue and capital) are submitted to all meetings of both the board and the Quality and Performance Committee. Management have been reviewing and revising the monitoring reports to ensure they provide members with a more comprehensive range of financial information. Reports are necessarily at a strategic level and we consider them to be appropriate and relevant. More detailed monthly financial monitoring reports are provided to budget holders.
- **49.** As auditors we attend a number of board and committee meetings each year. Members provide a good level of challenge and question management on significant variances and service performance issues.

Conclusion on financial management

50. We have concluded that the board has strong financial management arrangements that support the review and scrutiny of financial performance.

Financial sustainability

51. Financial sustainability is concerned with whether the board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the board's financial performance, financial planning, capital programmes and asset management, and workforce management.

Financial planning

- 52. The board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the vast majority of resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the board.
- 53. The board's five year plan for the period 2015/16 to 2019/20 is a key element of the LDP. The draft plan has been compiled to reflect a break-even position in each of the five years. The plan also recognises the significant cost pressures facing the board going forward, notably staff pay costs, the growing costs of drugs and other new technologies, and rising pension costs. Also, there is a

rising demand for services particularly among the elderly. All these pressures exacerbate a tightening financial position.

- 54. While facing significant cost pressures the board will also have to deal with reduced funding, in real terms, over the period of the 5 year plan. The basic funding uplift for 2015/16 is 1.8% although further funding uplifts have been made available to cover the integrated care fund, drug cost pressures and delayed discharges. In each subsequent year the funding uplift is assumed to be a flat rate of 1.8%.
- 55. New/orphan drugs costs present a particular challenge. In particular the 2015/16 estimated cost of Hepatitis C drugs is £20m. As a consequence, NHSGGC has built into the budget an additional £11.6m to cover this cost pressure. The full impact of this is not yet clear but has been highlighted as a high risk in the board's financial plan.
- 56. Savings will therefore play a significant part in maintaining financial balance over the 5-year period and the realisation of savings will become progressively more challenging year on year.
- 57. Total savings of £40.9m are required for 2015/16 (per the draft financial plan) which will need to be planned for on a recurrent basis. A further £18.7m will be required in order to meet the SGHSCD's target of 3% overall efficiency savings.
- 58. It has been estimated that savings will be achieved through service productivity (£16.7m), general prescribing (£10.2m), estates and facilities (£12.0m) and support services and workforce (£13.1m).

However, £6.7m of efficiency savings projects remain to be identified. Whilst the board is confident that it will be able to identify these further savings during 2015/16 there remains a risk that the required efficiency savings are not achieved. The board should ensure formal plans are produced covering all the required savings for 2015/16 as a priority. *(Action point 5)*

59. The 5 year financial plan is currently in draft form and requires some refinement and updating for the years subsequent to 2015/16. It is anticipated that it will be finalised and presented to the board on 23 June for approval and final submission to the SGHSCD.

Workforce management

- **60.** Workforce planning is integral to the board's strategic planning process and is a key element of the Local Delivery Plan.
- 61. We reviewed agency costs and the related controls as part of our 2014/15 audit work and we reported our findings in May 2015 to management and the audit committee. Costs increased from £17.4m in 2013/14 to £22.6m in 2014/15, an increase of 30%. NHSGGC, like many other health boards, is finding it difficult to recruit and retain staff at certain grades; the difficulty is particularly acute in those locations outwith the Glasgow area and which do not offer the broad range of services provided elsewhere. The increase was also partly due to the impact of transitioning from the various acute sites to the new hospital.
- **62.** There are particular locations and specialties across the board where agency usage is high. For example, the Acute Division,

(Emergency Care & Medicine) has a high agency usage (in particular, Inverclyde Royal Hospital and the Vale of Leven); Rehabilitation & Assessment (mainly for elderly care) is another speciality with high agency usage (in particular Royal Alexandra Hospital). Within the Partnerships Division, Inverclyde CHCP has seen costs increase for external agency consultants and agency junior doctors.

- 63. We are aware there continues to be close monitoring of the position at the highest level within the board and that there is an ongoing programme of recruitment. While efforts continue to recruit substantively to consultant vacancies there remains the risk that continued reliance on such staff could have an impact on the board's plans to achieve the savings required for longer term sustainability.
- 64. As with other health boards, NHSGGC is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. Overall the annualised sickness absence rate at 31 March 2015 was 5.32% which is slightly above the Scottish average of 5.14%. The board is committed to managing sickness absence downwards.
- 65. The 2014/15 financial statements include £0.468m of costs relating to 11 exit packages (2013/14: 30 packages, £0.925m). These relate to settlement agreements which have been acknowledged by the board as offering a recognised way for employees to leave the organisation on a mutually agreed voluntary basis. We tested a sample of payments and noted that each agreement was as a result

of a service redesign process, was supported by a business case, and had been appropriately authorised.

66. NHSGGC changed the wording in its settlement agreements to clarify that signing such an agreement is not a bar to reporting workplace concerns; however the agreements still contain confidentiality clauses. As a result of concerns raised nationally regarding the use of these so-called "gagging clauses" in settlement agreements, and revised national guidance, the board has advised that, going forward, confidentiality agreements will be used only in very specific circumstances.

Cost of pension provision

- 67. The UK Government has been pursuing a programme of reform of public service pensions across the UK, including in Scotland. As a result, new Career Average public service pension schemes are being created from 1 April 2015.
- 68. A revaluation of the NHS in Scotland pension scheme was carried out using pension scheme data as at 31 March 2012. This new valuation is being used to set a new employer contribution rate payable from 1 April 2015 to 31 March 2019. The new rate will be 14.9% of pensionable pay, compared to the rate of 13.5% which has been paid since 1 April 2009. The impact on employer costs in 2015/16 has been assessed by NHSGGC at approximately £17.0m recurring and has been reflected in the board's 2015/16 draft financial plan.

Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

69. NHSGGC has a number of PFI commitments which are disclosed in the accounts. Seven contracts are reported on balance sheet and include the Stobhill and Victoria Hospitals ambulatory care and diagnostic treatment centres and elderly and mental health facilities. The capital value of these projects has been included as part of the board's non current assets at a value of £249.1m. The associated recurrent revenue cost of these schemes is £29.7m with gross minimum lease payments of £537m due over the remaining repayment periods.

Clinical Negligence and Other Risks Indemnity Scheme (CNORIS)

70. Included within the other payables balance at 31 March 2015 is £34.8m in respect of 6 structured settlements (4 cases in 2013/14). These debtor balances represent compensation claims which have been legally agreed by the board and have been settled on the basis of an initial lump sum with annual payments being made over the life of the claimant. The balance has increased by £6.4m as a result of a reassessment of the methodology applied and 2 additional cases. The accountable officer has provided written representation on the adequacy of the basis for estimation in the absence of national guidance to calculate the liability.

Conclusion on financial sustainability

71. Overall, we are able to conclude that the board's financial position is sustainable currently although significant challenges lie ahead.

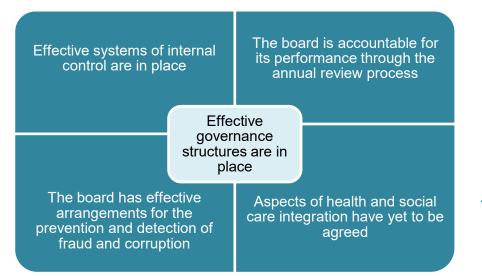
Outlook

- 72. The board is predicting a balanced budget in each of the five years from 2015/16 to 2019/20. This is dependent on significant efficiency savings each year to bridge the gap between available funding from current sources and the cost of services. Also, the board will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less.
- 73. The level of flexibility within expenditure budgets is considerably reduced by the release of cost savings in previous years and this makes it more challenging for the board to deliver balanced budgets in future. Management have advised that most services within the board area have already been subject to redesign and in their view, to achieve further savings of the scale required, more significant structural change will be necessary. This will in turn require further changes to the current service provision and may require significant changes to current HR policies if these are to be implemented.
- 74. The board is also faced with significant challenges arising from increases to its cost base. As already noted, from 2015/16 pension reform will increase employer contribution rates by an additional £17.0m. Furthermore from 2016/17 changes in national insurance will result in a further increase in the cost base. It is likely that the

board will have to meet this recurrent expenditure without any additional funding from the Scottish Government.

75. At the same time there will be increasing cost pressures from the introduction of new drugs and technologies and healthcare inflation in the UK is higher than general inflation. Over the last 20 years, general inflation in the UK averaged just 2% a year while health service costs rose by 3.6% a year.

Governance and transparency



- 76. NHSGGC is governed by a board of Executive and Non-Executive Directors and is accountable to the Scottish Government through the Cabinet Secretary for Health and Wellbeing.
- 77. The board is responsible for the strategic leadership and governance of NHSGGC. It is supported in this role by a number of standing committees as illustrated below:

Quality and Performance Committee (QPC) (oversees the Staff Governance Sub-Committee which in turn oversees the Remuneration Sub-Committee)

Audit Committee

Area Clinical Form

Primary Care (Disciplinary Committees)

Pharmacy Practices Committee

Endowments Management Committee

78. The board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHSGGC and for monitoring the adequacy of these arrangements.

Corporate governance

79. The corporate governance framework within NHSGGC is centred on the board which is supported by a number of standing committees. The key committee for overseeing governance and performance monitoring is the Quality and Performance Committee (QPC). It meets six times a year and can often have a very full agenda. An Audit Scotland representative attends the meeting as an observer and we note that scrutiny is exercised across a number of key areas.

- 80. The audit committee exercises scrutiny in its consideration of internal audit work programmes and outputs and receives all external audit reports. In addition fraud updates are regularly reviewed and the corporate risk register periodically reviewed.
- 81. It was agreed during the year that risk management arrangements should be reviewed and as a consequence the Risk Management Steering Group was re-established. This group has met recently and is currently reviewing documentation and procedures. It will then make recommendations on the appropriate form and level of reporting to the audit committee.
- 82. Based on our observations and audit work our overall conclusion is that governance arrangements within NHSGGC are operating effectively.

Transparency

- 83. The performance of all NHS boards is subject to an annual review process. The annual review aims to encourage dialogue and accountability between local communities and their Health Boards. The annual review for NHSGGC was held on 19 August 2014 and was hosted by representatives from the board including the Chief Executive and led by the Chair. There was an open session where members of the public could attend to ask questions of the Chief Executive and the board.
- 84. Members of the public can also attend meetings of the board and have ready access to board papers on the internet. The board papers provide comprehensive information on all aspects of

performance including waiting times and access targets, and measures being taken to address them.

- 85. The board's website has recently been redesigned and includes useful information on how to access services. It includes details of board members and has a register of members' interests. An online register of interests for all board staff was also re-developed and is available on the staff intranet.
- 86. Overall we concluded that the board is open and transparent. However some committees (e.g. Quality and Performance, Audit and Staff Governance) are held in private in accordance with the board's standing orders.

Internal control

- 87. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the board's financial statements.
- 88. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
- 89. However, we reported to management that there is no direct confirmation that amounts being charged by third parties for agency costs agree to the approved rates. We are aware of some

mitigating controls: any outliers and unusual transactions are subject to review and the budgetary control process would highlight significant variances. In response, management has agreed to undertake a full review of the process and introduce a range of appropriate controls.

Shared Services

- 90. There are a number of systems where NHSGGC is dependent on another NHS body for the provision of services. NHS National Services Scotland (NSS) provides Practitioner Services and National Information Technology systems and contracts. From 1 April 2013 the board has been using the eFinancials National Single Instance (NSI) to record financial ledger transactions. NHS Ayrshire & Arran has responsibility for the support of these finance systems.
- 91. In accordance with International Standard on Assurance Engagement 3402 (ISAE3402), NHS Ayrshire & Arran and NHS NSS commissioned service auditors to provide independent assurance that key controls and processes are operating satisfactorily. All opinions from service auditors were unqualified for 2014/15 but some matters arising were identified. Management should continue to work closely with the host boards to ensure adequate resolution of the matters identified for improvement.

Internal audit

92. Internal audit provides the board and Accountable Officer with independent assurance on the board's overall risk management,

internal control and corporate governance processes. We are required by International Standards on Auditing to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

93. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Internal audit completed all planned work on key financial systems for 2014/15. We were able to place formal reliance on aspects of internal audit work for several key financial systems.

ICT audit

- 94. ICT is a key area of control because it underpins all systems used by the board. As part of our planning process we carried a high level review of ICT covering a number of areas. In addition we carried out a Your Business @ Risk (YB@R) information governance and security survey. The survey can help bodies quickly assess procedural, cultural and ethical compliance risks that have the potential to undermine the effectiveness of their information governance policies. Our letter was issued to officers in May 2015.
- **95.** We also followed up prior year action points from three previous ICT reports and we intend to report shortly to management.
- **96.** We had originally planned to undertake a focused computer services review which was due to conclude by end July 2015. We

have agreed to postpone this review until later in 2015 due to internal operational pressures.

97. Based on our work undertaken to date we are able to conclude that the board's ICT arrangements are satisfactory and we are not aware of any specific issues that require to be brought to the attention of members.

Arrangements for the prevention and detection of fraud

- 98. We assessed the board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas including whistleblowing and liaison with Counter Fraud Services (CFS).
- **99.** The board's fraud liaison officer also works closely in partnership with CFS to promote anti-fraud activity and provides regular updates to the audit committee advising of current investigations within the NHS in Scotland.
- **100.** We concluded that the board has effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

101. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerized techniques to compare information about individuals held by different public

bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

- **102.** Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
- 103. The NFI database has identified a total of 6,273 data matches for NHSGGC of which 6,173 have been categorised as 'high quality' and 780 have been highlighted as recommended matches for investigation. Officers have so far investigated 301 cases with a further 37 cases currently in progress. Investigations to date have focused on the recommended matches with high priority, in particular payroll related data matches.
- 104. To date, there has been one confirmed fraud/error as a result of the investigation of a match on the NFI system, which amounted to a value of £27,697. This was found as a result of matching Payroll and UK Visa records. The individual concerned was found not to have a current visa and was dismissed.
- **105.** Progress on the NFI is regularly reported to the audit committee and there are no issues of concern that we require to include in this report.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

- 106. The board has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
- **107.** Based on our review of the evidence we concluded that the board has appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Freedom of Information (FOI) requests

108. As reported to the QPC in May 2015, NHSGGC completed 89.6% of FOI requests within the 20 day statutory time limit compared to the target of 90%. The Head of Board Administration is currently finalising the annual Freedom of Information monitoring report for 2014/15 which will be submitted to the board in August 2015. We have no significant concerns about the procedures followed by the board in processing FOI requests.

Vale of Leven Inquiry

109. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of C.difficile at the Vale of Leven Hospital was published in November 2014. Following publication of the report health boards were required to carry out a selfassessment of progress against the 65 recommendations directed at health boards.

110. The board accepted the conclusions of the report, that there were deficiencies in nursing and medical care as well as governance and managerial failures. The January 2015 meeting of the QPC endorsed the self assessment return to the Scottish Government along with the actions being taken to fully address the Inquiry's recommendations. The board assessed itself as having fully implemented 31 of the 65 recommendations, 21 recommendations had been mostly implemented, with 12 only partially implemented. One recommendation was deemed not applicable to NHSGGC; this related to the Link Nurse system, which is not in operation within the board. Actions are in place to address those recommendations which have not fully been addressed.

Healthcare Associated Infection (HAI)

- 111. The Healthcare Environment Inspectorate (HEI) process provides assurance to the board on the effectiveness of infection control. 5 HEI inspections of Safety and Cleanliness took place across NHSGGC in 2014/15 which resulted in 2 recommendations and 17 requirements. The board is working to address all issues raised by the HEI and actions to address the issues raised have been put in place.
- 112. Internal audit's report to the November 2014 audit committee found the board's Infection Prevention and Control Service (IPC) was a low risk. The report reviewed the IPC's activities against previously

agreed national and local recommendations. Of 20 recommendations reviewed, 18 were already fully implemented and 2 were partially implemented with revised dates agreed.

113. We conclude that the board takes all independent reports and clinical governance matters very seriously and puts action plans in place with agreed timescales. The board are taking action designed to help reduce healthcare associated infection risk to patients.

Health and Social Care Integration

- 114. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland. The statutory deadline date for the implementation of integrated care arrangements is 1 April 2016.
- 115. There are six local authorities within the board's area working with the board towards creating Integrated Joint Boards (IJBs) comprising non-executive members from both NHSGGC and the relevant councils. Each IJB submitted a draft Integration Scheme to the Scottish Government by the statutory deadline of 30 March 2015. Five out of the six integration schemes have been laid in Parliament with the IJBs established from 27 June 2015. We understand that the Glasgow City scheme remains with the Scottish Government for approval.
- **116.** The six schemes all cover the minimum services required by the Act (adult social care, primary care, community adult healthcare, and community children's healthcare). Four schemes also include

children's social care. Strategic plans for each IJB are currently being developed, with planned approval dates by the IJBs varying from autumn 2015 to April 2016, the final statutory deadline for approval.

- 117. At the time of this report, six Chief Officers and five Chief Finance Officers have been appointed. A technical working group has been established with members from all parties and its remit is to build on national guidance and develop it for local use across each IJB. This includes the development of financial regulations and principles for budget management within IJBs. We are aware that Internal Audit intend to review this work as part of a due diligence process.
- **118.** The complex nature of health and social care service delivery will present challenges for the new organisations. Given the organisational and financial issues still to be resolved there is a risk that the formal arrangements may not be fully developed in all six IJBs by the statutory deadline date.

2020 Vision

119. The Scottish Government's vision is that by 2020 everyone is able to live longer healthier lives at home, or in a homely setting. The board has been addressing this challenging agenda through its Clinical Services Fit for the Future programme which was established in 2012 to review current services for the delivery of the 2020 vision. This Clinical Services Review was taken forward by key clinicians and the resulting Strategy for 2015-20 was presented to the board by the Medical Director in January 2015. It is now in the process of widespread consultation with stakeholders.

- 120. The Strategy will provide a blueprint to develop redesigned services to meet future demands. The main elements of this are the development of supported care, developing the ambulatory approach to hospital care, developing primary care and improving the interface between community and hospital. Overall the aim is to change how care is delivered by shifting the focus of care from acute hospital settings to community settings.
- 121. Health and social integration is a key element of the strategy and the board will engage with IJBs across its area to adopt the Strategy as a shared approach.

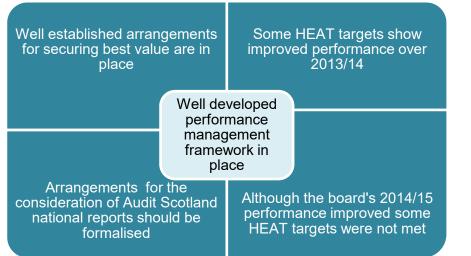
Outlook

- 122. Changes in Scotland's population mean that demands for health and social care will increase significantly over the next 20 years, at the same time that budgets are tightening. The NHS will not be able to continue to provide services in the way that it currently does, given the scale of changes required. It needs to do more to plan for how it will make the changes needed to provide sustainable care for the future.
- 123. Increasing demand is already putting pressure on services. NHS boards need to better understand their demand, capacity and how patients move through the complex health and social care system so that they can match their capacity with current and future needs.

- 124. NHSGGC will use the Clinical Strategy and consultation responses as the basis for engagement for further consultation on specific change proposals. This work will aim to achieve the objectives of the 2020 Vision.
- 125. Health and social care integration is also an important element in supporting the delivery of the Scottish 2020 Vision. A lot of work remains in order to ensure that the board and its council partners are well placed to successfully deliver on this important strand of the Scottish Government's reform agenda.
- 126. The progress of integration arrangements will also see changes to the board's structure and reporting arrangements. The Quality and Performance Committee's role in scrutiny across financial, service and clinical governance will be replaced by a scrutiny body within each of the new IJBs and a new Committee which will scrutinise the performance of acute services.
- 127. The board has indicated that 2015/16 will see further changes to all operational management structures, due partly to the creation of the Integrated Care Partnerships but also the opening of the new South Glasgow Hospitals and closure of other sites. The post of Chief Operating Officer was filled during 2014 and the new Director of Finance was in post from April 2015. The Director of Human Resources will be retiring in June 2015 and a new Director has been appointed. A revised management structure with three territorial and three cross–system directors is being introduced from June 2015. In addition the tenure of the current board Chair will expire on 30 November 2015 and is currently being advertised. There is a

risk of loss of experienced senior personnel and protracted uncertainty at a time of substantial change. This may impact on staff morale which may affect successful service delivery and achievement of performance targets. *(action point 6)*

Best value



128. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

Arrangements for securing best value

- 129. Best value arrangements are considered to be part of business as usual within the board. They are embedded in its planning processes, governance arrangements and its performance management.
- **130.** The board's Governance Statement includes a review by the Accountable Officer of the system of internal control. This is

informed by assurance statements from executive managers, by internal audit and external audit reports.

- 131. The audit committee also receives a report from the Financial Governance and Audit Manager on the Review of the System of Internal Control. This report outlines the board's commitment to best value and provides evidence as to how best value is delivered.
- **132.** Overall, we were able to conclude that the board has welldeveloped arrangements for securing best value and continuous improvement.

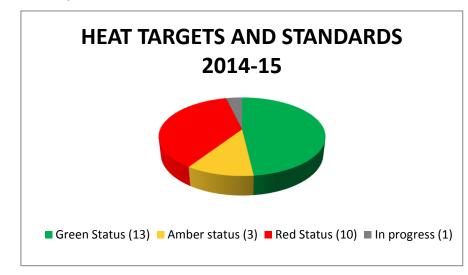
Performance management

- 133. The performance of NHSGGC is monitored by the Scottish Government against a number of HEAT targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in the board's 2014/15 Local Delivery Plan (LDP).
- 134. Performance against HEAT targets and standards is presented to each meeting of the Quality and Performance Committee in the form of a balanced scorecard. These performance reports also include progress against local performance indicators. The performance reports are accompanied by a narrative setting out actions being taken to support the achievement and sustainability of the HEAT targets and standards. Furthermore, performance is discussed at the Annual Review meeting referred to previously.

135. We concluded that the board had a well established performance management framework in place during 2014/15. This was supported by effective performance monitoring.

Overview of performance targets in 2014/15

136. The board's performance against its 27 HEAT targets and standards as reported in May's Integrated Quality and Performance Report, and based on the most up to date data available is summarised in the diagram below.



- **137.** Excluding the one indicator in progress, thirteen were categorised as green, three amber and ten red, where:
 - Green means meeting or better than trajectory
 - Amber means within 5% of trajectory
 - Red means outwith 5% of meeting trajectory.

- **138.** Those HEAT standards and targets currently being met include the 12 week outpatient wait, IVF treatment within 12 months and all cancer treatments within 31 days.
- 139. Some areas of performance are slightly behind target (amber status). These include the percentage of patients urgently referred with a suspicion of cancer beginning treatment within 62 days of their referral, and the percentage of patients accessing treatment from Child and Adolescent Mental Health Services (CAMHS) within 18 weeks of referral.
- 140. Areas of performance which fell short of the heat targets by over 5% (rated as red) included MRSA/ MSSA Bacteraemia cases per 100,000 bed days; the admissions to the stroke unit on the day or day after admission to hospital and delayed discharges over 14 and 28 days.
- 141. Explanations for those measures not being met are provided to each QPC meeting together with actions to address performance and a timeline for improvement. Performance in relation to a number of the HEAT targets is also referred to in the financial statements. Areas of particular interest to the QPC include:
- 142. MRSA/MSSA Bacteraemia. This target was narrowly missed. Two new standard operating procedures have been developed in order to reduce the incidence of SAB cases and a range of actions have been set out to improve performance.
- 143. Unscheduled Care. A&E waiting time performance against the 4 hour target of 95% was 88.5%. Pressure has been identified across

all sites resulting from a wide variation in type and volume of emergency presentation throughout the day. The Scottish Government support team, working with local teams at Royal Alexandria Hospital, Western Infirmary and Glasgow Royal Infirmary identified measures on how to improve the admission and discharge of patients from A&E. Action plans were formed as a result of this work and learning from these has been shared across other sites.

- 144. A&E waiting times are now being published weekly and significant issues are currently being raised primarily as a result of the opening of and move to the new South Glasgow University Hospital. The board is aware of these and is taking immediate action to remedy the issues identified.
- 145. Stroke Unit Admissions. 82.9% of patients suffering a stroke were admitted to a stroke unit on the day, or the day following their presentation to hospital, falling short of the 90% target. Actions to address performance have been established and timelines for improvement at individual sites have been agreed.
- 146. Delayed Discharges. The issue of delayed discharges continues to challenge all parties. The board has been continuing its work with its local authority partners to identify and address the issues causing delays. There has been a particular focus in working with councils to achieve discharge for patients in facilities due to close in order to avoid their transfer to the new hospital. With the pressure on hospital beds in general, the board and its partners need to achieve immediate and continuing reductions in the number of delayed discharges.

Local performance audit reports

147. Our local performance audit work is focusing on the collection of baseline information in respect of financial capacity in public bodies, specifically on finance departments and the impact on financial planning and the control environment across the public sector. This work is currently underway and we shall report our findings in due course.

National performance audit reports

- 148. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the board. These are outlined in appendix III.
- 149. We have previously reported that national reports and the board's responses to the findings have not been routinely considered by management or the audit committee. While we are pleased to note that some action is being taken to ensure relevant reports are formally considered there still remains a number of national reports which have yet to be formally considered.
- **150.** We have recommended that officers introduce a more formal process to ensure that Audit Scotland's national reports are considered by officers. The audit committee should be advised of the board's position in comparison to the findings contained within these reports and should be apprised of any proposed actions to address weaknesses identified.

Equalities

- 151. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- **152.** NHSGGC published its full monitoring report covering 2013-2015 in April 2015. The report highlighted that there was significant uptake of equalities learning opportunities for staff such as e-modules and face-to-face learning opportunities. However, issues were identified in relation to engagement with patients and equality groups. The report highlighted 12 points as requiring further work in 2015/16; these related to a range of protected characteristics.

Outlook

- 153. In the annual overview of the NHS in Scotland, the Auditor General highlighted that there are increasing signs of pressure on NHS boards' ability to meet demanding performance targets. The strong focus, particularly in relation to waiting times targets, may not be sustainable when combined with the additional pressures of increasing demand related to demographic changes and the overall NHS budget starting to decrease in real terms.
- **154.** The effort that NHS boards are putting in to meeting challenging financial and performance targets each year contributes to the challenge to focus on the long-term planning required to achieve the 2020 Vision.

- 155. In common with other NHS boards, NHSGGC faces challenges in meeting its HEAT targets. Whilst the board has put in place a range of measures to improve performance, areas of significant challenge remain due increasing demand for improved services arising from changing demographics, lifestyles, health inequalities and increasing public expectations. The board will need to continue to redesign services and improve quality, while also making services more efficient and sustainable. Furthermore, at a time of transition with the transfer of services from several hospitals to one, it has been difficult to achieve all performance targets. *(action point 7)*
- **156.** The opening of the new hospital is a major element in the redesign of NHSGGC's acute services and involves the transformation of a number of existing processes. The expected impact of the new hospital relies on the successful migration of staff and services together with the implementation of staffing and bed models which, in turn, rely on the need to keep delayed discharges to a minimum.

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
 Risk of material misstatement due to fraud in revenue recognition NHSGGC receives a significant amount of income in addition to Scottish Government funding, as set out in the Statement of Comprehensive Net Expenditure. Particular areas for concern include: FHS income, cash receipts, non-mainstream income generating activities. ISA 240 presumes an inherent risk of fraud where income streams are significant. Risk The size and diversity of income streams flowing to the board means that there is an inherent risk that income could be materially misstated. 	 We evaluated accounting policies for income and expenditure and reviewed accounting estimates. Detailed testing of journal entries at year end was undertaken. We evaluated the effectiveness of systems of internal control for income recognition and recording. We also undertook substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements. Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income. Monitoring of frauds and false exemptions reported and examination of the NHS National Services service auditor report covering Practitioner Services. 	 Reviewed the financial monitoring reports presented to the board and QPC. Scrutiny is considered to be robust. Reviewed accounting policies in the financial statements. Policies were deemed appropriate. We assessed the controls in place for income recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified and we were able to conclude that controls were operating effectively.

Audit Risk	Assurance procedure	Results and conclusions
Risk of management override of control ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. Risk There is a risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.	 We tested the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. We reviewed the accounting estimates applied for bias. We evaluated any significant transactions are outside the normal course of business. We focused our testing on the regularity and cut-off assertions during the financial statements audit. 	 We substantively tested a sample of journal entries at year end and agreed to source documentation. There were no issues to report. Our testing focused on the regularity and cut-off assertions. There were no matters to report. We did not identify any instances of management manipulating accounting records or overriding controls.

Audit Risk	Assurance procedure	Results and conclusions
Other financial statements risks		
Financial Sustainability NHSGGC faces challenges in dealing with a range of actual and anticipated funding and cost pressures. Risk There is a risk that the board fails to achieve its planned year end financial position.	 We monitored updates to the Financial Plan and review financial monitoring reports to the board and QPC. We reviewed monthly financial returns to SGHSCD. We tested of a sample of transactions taken from both pre- and post-year end to confirm expenditure and income had been accounted for in the correct financial year. We reviewed the efficacy of a sample of settlement agreements. Review the controls relating to the use of agency staff. Monitored progress on the new South Glasgow Hospitals project. 	 The board has a year end underspend of £1.233m against its Core RRL. This is in excess of that forecast throughout the year where breakeven was anticipated. We conclude on financial sustainability within this report. Our review identified some control issues in relation to the checking of agency payments. We identified some issues in relation to settlement agreements to be considered by management in order to ensure compliance with the SPFM. In the coming months, the board will face significant pressures to deliver patient services and meeting performance targets. More detail on the migration to the new hospital is provided below.

Audit Risk	Assurance procedure	Results and conclusions
Accruals In previous years there have been challenges obtaining adequate evidence to support year end accruals. Risk There is a risk that a financial misstatement will occur if accruals are raised inappropriately.	 Early discussions were held with management in order to discuss potential issues arising. A meeting with management accountants was held prior to the year end audit to discuss the proper accounting treatment of accrual entries. Testing of an extensive sample of accruals at year end. 	• The results of our year end testing again found a number of accruals which we considered to be invalid, either due to accruing for goods/services not received in the reporting year, or where the board had accrued for unspent 2014/15 budget for a number of programmes. This resulted in a number of unadjusted errors which were agreed with management.
Equal Pay NHSGGC, in common with other NHS boards, has not been able to quantify the extent of its liability for Equal Pay claims. Risk Whilst the risk is reducing, there remains a risk that settlement of equal pay claims could have a significant impact on the board's future financial position.	 We reviewed the accounting treatment at year end relating to Equal Pay. 	• Guidance provided during the year allowed boards to make a provision within their financial statements. The presentation within note 17 of the accounts complies with that guidance.

Audit Risk	Assurance procedure	Results and conclusions
Provisions The board has disclosed significant provisions in its financial statements. Risk Due to their subjective nature, there is a risk that provisions could be incomplete, not valid or incorrectly valued. A prior year adjustment will be required to reflect revised accounting treatment for contributions to CNORIS to meet future obligations.	 We reviewed the accuracy, validity and completeness of the provisions and tested the year end balances substantively. We reviewed the board's assessment of on-going legal cases, potential provisions resulting from vacating old sites, Vale of Leven Inquiry report and other significant issues. We reviewed the revised accounting treatment of provisions at year end, including the revised treatment for contributions to CNORIS. 	 We reviewed all significant provisions and substantively checked these to appropriate source documentation. We identified an element of the restructuring provision which could not be adequately substantiated. This was included as an unadjusted error. From review of the prior year adjustment relating to CNORIS contributions, we are satisfied that the adjustments are presented appropriately in compliance with SGHSCD guidance.

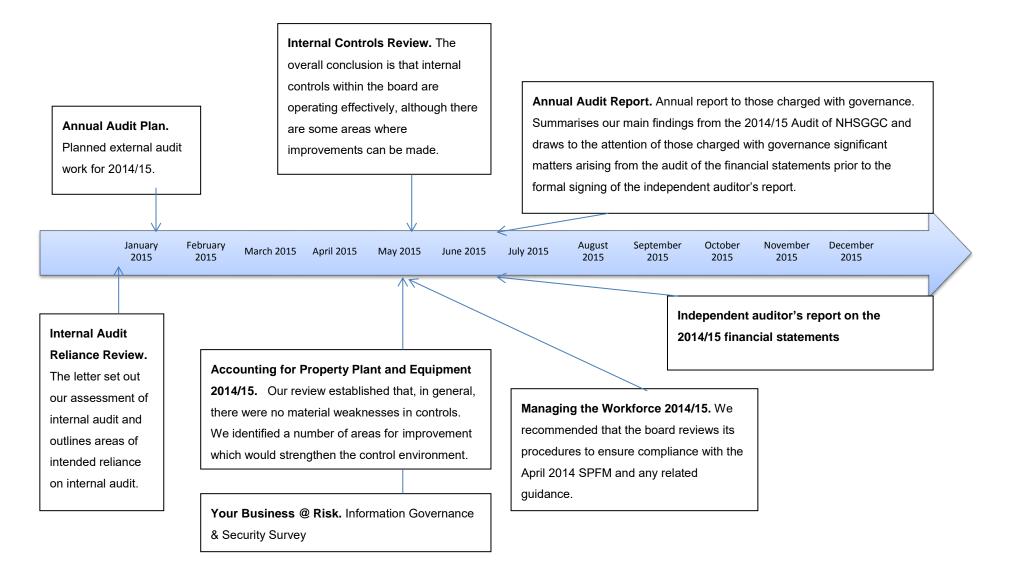
Audit Risk	Assurance procedure	Results and conclusions
Improving the quality of NHS Annual Report and Accounts The Financial Reporting Council has an initiative aimed at making annual accounts clearer, more concise, and more focused on ensuring annual accounts provide relevant information to the users of accounts. In response Audit Scotland has developed a good practice note entitled ' <i>Improving the quality of NHS Annual Report and Accounts</i> '. NHS bodies should use this guidance to ensure the 2014/15 annual accounts are clearer, more concise and more focused on the needs of the users. Risk There is a risk that the 2014/15 annual accounts may not provide concise information which is relevant to users of the accounts.	 We assessed NHSGGC's 2013/14 financial statements against the Good Practice Note "Improving the Quality of NHS Accounts". 	 We are pleased to note that only a few minor issues were identified and these were discussed with the Assistant Head of Financial Services.

Audit Risk	Assurance procedure	Results and conclusions				
Risks identified from the auditor's wider responsibility under the Code of Audit Practice						
Migration to new South Glasgow University Hospital A major reconfiguration of service will take place when the new South Glasgow University Hospital opens. The transfer to the new hospital in 2015 places significant pressures on service provision and performance targets. The move is scheduled to take place over a 6 week period. Risk There is a risk that the move is delayed causing disruption to the hospital users. In addition, there may be an impact on staff as they co-locate and apply new ways of working. It is likely that performance targets will not be achieved.	 We reviewed progress reports and monitored progress towards completion of project and transfer of staff and patients. We considered whether there is any impact on our audit approach at the year end as a result of the transition on, for example stock levels, asset values. 	 We attended, as an observer, all meetings of the Acute Services Strategy Board until it was wound up in January 2015. The new hospitals were completed in January, ahead of schedule and under budget. Staff and patients have been transferring on a phased basis since April with the last patients transferring from the Royal Hospital for Sick Children in mid June. There was no major impact on stock levels but there was a major impact on non current assets Early issues have been identified regarding waiting times and there are public and staff concerns over car parking and transport links. 				

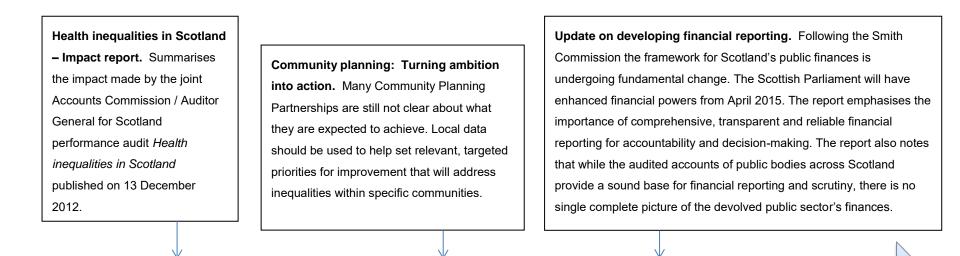
Audit Risk	Assurance procedure	Results and conclusions
Health and social care integration The integration of health and social care services in Scotland should be implemented locally from 1 April 2015 while full integration arrangements must be in place by 1 April 2016. Risk There is a risk that the board and its local authority partners will not be fully prepared by 1 April 2015. Financial pressures could also adversely impact on the effectiveness of the move to full implementation of health and social care integration. This could adversely impact on service delivery.	 Review of progress included meetings with the board's Director of Planning and Performance, and two of the Integrated Joint Board's (IJB) designated Chief Officers. We monitored the proposed governance arrangements for the integrated boards although these remain to be finalised. We reviewed of minutes and reports to the Quality and Performance Committee and shadow integration joint boards. 	 Good progress is being made by all IJBs. At the date of reporting, five out of the six Integration Schemes have been approved by the Scottish Government and these IJBs will be established from 27 June 2015. All Strategic Plans setting out the full integration arrangements are required to be in place by 1 April 2016. Sound arrangements are in place for agreeing and standardising financial procedures across the 6 IJBs. The agreement of financial resources remains a challenge.

Audit Risk	Assurance procedure	Results and conclusions
 Health Information & Technology (HI&T) The board continues to work in an ever changing environment. The rationalisation of the patient management system, the migrating of GP systems and the impact of providing the ICT provision to the new hospitals mean that the HI&T Directorate is having to react and adapt to new circumstances. Staff also need to be aware of the risks associated with data handling and information security as their ways of working changes. <i>Risk</i> There is a risk that the change in practice and the increased workload impact on the internal control environment and has an adverse effect on the eHealth ICT service provision. 	 We planned to undertake a focused computer services review and intended to place reliance on the relevant internal audit reviews undertaken during 2013/14 and 2014/15. We offered to conduct a 'Your Business at Risk (YB@R)' online survey to help inform the board's understanding of staff attitudes, behaviours and working practices towards data handling and information security. 	 Our planned focused computer services review has been delayed due to client operational pressures. Internal Audit reviews will be considered when we undertake our review in Autumn 2015. We undertook a YB@R information security and governance survey and provided the results for management to consider. No major matters identified.

Appendix II: NHSGGC local audit reports 2014/15



Appendix III: Audit Scotland national reports 2014/15



May August September October November December January February March April June May 2014 June 2014 July 2014 2014 2014 2014 2014 2014 2015 2015 2015 2015 2015 2015 小 NHS in Scotland 2013/14. Comments on the performance of the NHS in 2013/14 and on its future plans.

Scotland's public finances - a follow up: Progress in meeting the challenges. Leaders and managers must produce balanced budgets and hold people in their organisations to account for how the money is used and what is achieved. Board members have an important role in ensuring that approved budgets are used to best effect. To do this they need good-quality and timely financial information. They need to take a longer-term view on: options available for services; services standards and affordability; and, the sustainability of financial plans.

Appendix IV: Action plan

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 / 12	 Non current assets During 2014/15 the Victoria, Mansionhouse and Southern General Hospitals and the Royal Hospital for Sick Children were impaired to reflect a remaining useful life of 6 months (until September 2015). However some elements of these hospital sites may remain operational while an upgrade is effected to the Gartnavel General site to relocate some patient services. Risk There is a risk that non-current assets have been impaired prematurely and will have a nil value while still remaining operational. Non current assets are not depreciated resulting in an inaccuracy of the charge to net operating costs. Recommendation The board should review its plans for asset utilisation and/or disposal. 	There are currently on-going discussions taking place about potential changes to the timings of the ASR decommissioning of sites. As at the year-end the proposals remained - that the ASR sites would be decommissioned within the second quarter of 2015/16 and consequently the sites were all impaired as at 30/9/15. If there are developments in this area then the impairment dates of any site affected will be reviewed in the event of any decision to formally retain a site beyond the current date of impairment.	Director of Finance	September 2015

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 / 13	 Trades payables – accruals A number of projects were inappropriately accrued at the year end and resulted in a number of unadjusted errors. Risk There is a risk that if expenditure is not accounted for in the correct accounting period, there is a loss of transparency in financial reporting. This has implications for subsequent resource allocation. Recommendation The board should review its processes for accruing expenditure to ensure that only valid obligations are accrued. 	The point is accepted and we will review the processes in 2015/16 to address this issue. The main issues were in relation to ring fenced allocations available in 2014/15, but not fully committed in the financial year and required in 2015/16.	Director Of Finance	September 2015

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
3 / 13	 Goods received not yet invoiced (GRNIs). We identified a number of GRNIs which referred to goods received in prior years. Officers were unable to provide sufficient evidence to support GRNIs totalling £2.2m which referred to goods received in prior years. Risk There is a risk that expenditure is not accounted for in the correct accounting period resulting in a loss of transparency in financial reporting. Recommendation 	There will be a full review of outstanding GRNs in 2015/16. This should alleviate the problems that arose in 2014/15.	Head of Financial Services	September 2015
	The board should review the processes for the accruing of GRNIs to ensure that only valid obligations are accrued.			

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 / 15	 Heritage assets From 2011/12 boards were required to separately disclose any heritage assets. No heritage assets have been disclosed by NHSGGC and the ongoing review has yet to conclude. Risk There is a risk that the board is unable to fulfil its stewardship responsibilities and follow the principles of FRS 30 Heritage assets. Recommendation The board should assess the findings of the review undertaken to date and ensure the review is concluded. 	There is currently a significant exercise underway, including the decommissioning of sites as part of the Acute Services Review. At this stage there have been no heritage assets identified.	Director of Finance	December 2015

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
5 / 21	 Savings target The delivery of the cost savings plan for 2015/16 and subsequent years will continue to remain challenging. £6.7m of the 2015/16 savings target has not yet been identified. Risk Whilst the board is confident that it will be able to identify these further savings during 2015/16, there remains the risk that the required efficiency savings will not be achieved. Recommendation The board should ensure that formal plans are produced covering all the required savings for 2015/16. 	Plans to close the unidentified gap are currently being prepared. At the same time the Board is planning for 2016/17 savings and will continue to develop schemes for implementation in future years but achieving these levels of savings is becoming increasingly difficult to sustain as most services have now been subject to service redesign programmes.	Director of Finance	March 2016

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
6/32	Organisational review A major restructuring of the organisation and its management structures is currently being undertaken as a result of the integration of health and social care services and the move to the new hospitals. Risk There is a risk of loss of experienced senior personnel and protracted uncertainty at a time of substantial change. This may impact on staff morale which may affect successful service delivery and achievement of performance targets. Recommendation The board should ensure that communication channels remain open with all staff during this turbulent period.	The organisational change process, establishment of Integrated Joint Boards and the move to the new hospitals is nearing conclusion. Management Structures for Acute Directorates have now been finalised and populated and most Integrated Joint Boards have appointed to their management structures. This has not resulted in a significant loss of experience to the organisation. In addition, permanent Directors of Finance and Human Resources have been appointed during 2015/16 and arrangements for the forthcoming vacancies for Nurse Director and Director of Public Health are currently being finalised. The Board has made significant investment in communicating with staff during this period and this will continue as these major changes are completed.	Chief Executive	March 2016

No. / Page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
7/36	 Performance against HEAT targets The board did not achieve all its performance targets in 2014/15. Risk There is a risk that in a climate of reducing funding and competing priorities, performance targets are not achieved or maintained. Recommendation The board should monitor investment designed to improve performance and determine whether specific areas / specialties require more detailed scrutiny or additional actions to be taken. 	The Board will continue to strive to achieve and monitor performance against all key targets through its organisational performance processes at Directorate and Partnership level. Overall Board performance is scrutinised by the Board and its Committees throughout the year. Scrutiny processes will be extended further when Integrated Joint Boards go live during 2015/16.	Chief Executive	March 2016



VAUDIT SCOTLAND

NHS Greater Glasgow and Clyde

2015/16 Annual Audit Report for the Board of NHS Greater Glasgow and Clyde and the Auditor General for Scotland

June 2016

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Gillian Woolman, Assistant Director, Audit Scotland is the appointed external auditor of NHS Greater Glasgow and Clyde for the period 2011/12 to 2015/16.

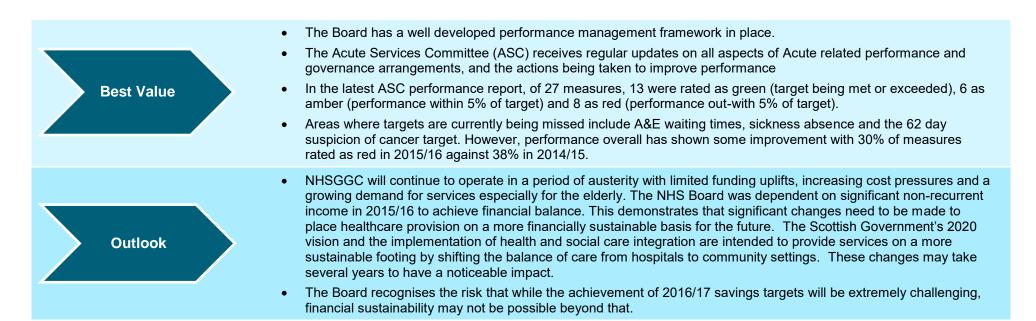
This report has been prepared for the use of NHS Greater Glasgow and Clyde and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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Key messages

Audit of financial statements	 We have issued an unqualified opinion in the independent auditor's report that the 2015/16 financial statements show a true and fair view. There were a number of outstanding matters which were resolved late on in the audit process. The group accounts, including the financial performance of three Integrated Joint Boards, were prepared late.
Financial management & sustainability	 The Board met all of its 2015/16 financial targets. However, this was after the reclassification of certain items of expenditure from core to non-core and vice versa. A surplus of £0.2 million was achieved against the total Revenue Resource Limit (RRL). The Board achieved its overall savings target of £59.6 million. However, £11.5 million (19% of target) was met from non-recurring savings. The Board has sound financial management arrangements that support the review and scrutiny of financial performance. The fruition of an ambitious capital programme was realised with the opening of the Queen Elizabeth University Hospital and the Royal Hospital for Children in June 2015. The move was one of the largest hospital migration programmes undertaken with the transfer of almost 700 patients and relocation of over 6,000 staff. The project was delivered on time and to budget. There are, however, resource and performance implications associated with this change in service delivery.
Governance & transparency	 The Board has well-established and appropriate governance arrangements in place. Appropriate systems of internal control were in place during 2015/16. However, we have advised management of a number of matters arising and areas for improvement regarding procedures and controls related to engaging and paying medical agency locums and relating to the accounting for property, plant and equipment. The Board's internal audit service complies with Public Sector Internal Audit Standards. Robust anti-fraud arrangements are in place. Progress is being made by each of the six Integrated Joint Boards, with three becoming operational during 2015/16. However, procedures need to be improved in relation to the communication between parties to ensure all IJB financial statements are received in accordance with NHS timescales.



Introduction

- This report is a summary of our findings arising from the 2015/16 audit of NHS Greater Glasgow and Clyde ('NHSGGC' or 'the Board'). The report is divided into sections which reflect our public sector audit model.
- 2. Management of NHSGGC is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
- 3. Our responsibility, as the external auditor of NHSGGC, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
- 4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

- A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at <u>appendix II</u> and <u>appendix III</u>, include recommendations for improvements.
- 6. <u>Appendix IV</u> is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that NHSGGC understands its risks and has arrangements in place to manage these risks. The Board should ensure that it is satisfied with the proposed action and have a mechanism in place to assess progress and monitor outcomes.
- 7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
- 8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
- 9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of NHSGGC will be continue to be Audit Scotland, but with a new audit team in place. In accordance with agreed protocols and International Standards on Auditing we will liaise with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	 We have completed our audit and issued an unqualified opinion that the financial statements of NHSGGC and its group for 2015/16 give a true and fair view of the state of its affairs and of its net operating cost for the year.
Regularity of income and expenditure	 In our opinion, in all material respects expenditure and income in the financial statements were incurred or applied in accordance with relevant legislation and guidance.
Other information	 We review and report on other information published with the financial statements notably the Performance Report and Accountability Report which includes the Governance Statement and the Remuneration and Staff Report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements. We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content. We have nothing to report in respect of the other information published as part of the annual report and accounts.
Consolidation template	• The Board's consolidation template has been audited to confirm that the figures are consistent with the audited financial statements. The template and accompanying assurance statement will be submitted to the Scottish Government Health and Social Care Directorates by 30 June 2016. These templates are used to compile the national NHS financial position.

Submission of financial statements for audit

- 10. We received the unaudited financial statements on 9 May 2016, in accordance with the agreed timetable. The working papers in support of the primary statements were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.
- 11. The financial statements of the Board are prepared in accordance with the Government Financial Reporting Manual (FReM). There has been significant restructuring to the annual report to include a performance report (which has replaced the management commentary) and accountability report (which includes the governance statement) and a renamed remuneration and staff report. These changes have been reflected in the Board's accounts.
- 12. We were however disappointed to note that not all of the required changes had been incorporated in the draft financial statements provided for audit. In particular there was no remuneration and staff report, and the annual report and governance statement required updating. Finance staff have worked diligently to produce a revised set of accounts which were received on 17 June 2016. We have therefore recommended that, in future years, management conduct a comprehensive quality review of the unaudited financial statements prior to submitting the accounts for audit in order to minimise the number of changes required.

Appendix IV, action plan 1

- 13. In 2015/16, for the first time, health Board group accounts are required to include the financial results of Integrated Joint Boards (IJBs) in their area, where material. Within NHSGGC there are six IJBs; West Dunbartonshire, East Dunbartonshire, East Renfrewshire, Glasgow City, Renfrewshire and Inverclyde, of which the first three became operational during 2015/16. Material expenditure was incurred by these IJBs prior to 31 March 2016 and therefore their financial results were required to be incorporated into the NHSGGC group accounts.
- 14. The Board and IJBs have different reporting regimes. NHSGGC is required to submit its audited accounts by 30 June each year whereas the IJBs do not have to submit their audited accounts until 30 September each year.
- 15. We were disappointed to note that effective arrangements were not in place to effect this consolidation. The required information was provided on 13 June at which point NHSGGC staff updated the Board's financial statements. Revised accounts, together with appropriate back up, were received on 24 June. In 2016/17 the Board will have six IJB accounts to consolidate. It is essential that proper arrangements are agreed to ensure the flow of financial information which will accommodate the early sign off of the NHS Board accounts.

Appendix IV, action plan 2

 The accounts reflect good practice as set out in the Audit Scotland publication 'Improving the Quality of NHS Annual Report and Accounts' (December 2014).

Overview of the scope of the audit of the financial statements

- Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 8 March 2016.
- 18. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 19. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.
- 20. During the planning phase of our audit we identified a number of risks and reported these in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of

assurance. <u>Appendix I</u> sets out the significant audit risks identified and how we addressed each risk.

21. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

- 22. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
- 23. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
- 24. We summarised our approach to materiality in our Annual Audit Plan. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that we were able to revise our original planning materiality for 2015/16 to £30.9m (1% of gross expenditure). Performance materiality was calculated at £15.5m, to reduce to an

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acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

 25. Additionally, we set a misstatement threshold of £100,000. Amounts below this value are generally considered trivial. However, our audit testing also took account of the Board's challenging requirement to break even.

Evaluation of misstatements

- 26. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the financial statements in respect of a number of instances. Total adjusted errors amounted to £3.4m and included:
 - revision of classification of certain items between core and non-core: £2.5m incorrectly identified as non-core to core and £1.2m of core to non-core. As a consequence, £1.3m of unutilised non-core funding was returned to the SGHSCD
 - £0.3m (reduction in accruals) which related to entries where management could not provide evidence of goods or services being received in 2015/16
 - £0.4m (reduction in accruals) to incorporate an error in estimation of the year end FHS accrual for expenditure in 2015/16

- £0.3m (increase in accruals) to reflect an increase in the untaken holiday pay accrual
- £0.1m (reduction in accruals) to reflect an error accounting for VAT in the year end stock certificates
- £0.4m (increase in trades receivables) to reflect income recorded in 2016/17 which related to 2015/16.
- 27. Those adjustments together with the inclusion of the IJB balances had the following impact on the health Board's reported financial outturn for the year:
 - Surplus reported against core revenue resource outturn was amended from £0.8m to £0.2m.
 - Break even against non-core revenue remained as reported previously.
- 28. A number of other misstatements were identified which were not processed through the financial statements by management and have been classified as unadjusted misstatements. Were they to be processed they would reduce expenditure by £0.548m and increase net assets by £3.9m. The most significant of these items related to:
 - Revaluation of surplus assets and assets held for sale to reflect fair value would increase net assets (£3.2m)
 - Cancer treatment related accruals (£0.33m) which had been accrued for budget funding not yet spent in 2015/16.

 PPSU pharmacy project and other ring fenced funding (£0.12m) which had accrued budget funding not yet spent in 2015/16.

Significant findings from the audit

- **29.** International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
- **30.** Table 1 below details those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

Core expenditure classified as non-core expenditure.

The financial statements initially provided for audit, recorded £4m non-core expenditure to match funding received in January 2016 from the Scottish Government Health and Social Care Directorates (SGHSCD). We were advised that the funding had been applied to cover expenditure items such as compensation payments and non-domestic rates. Following discussion with officers it was agreed that elements of the expenditure originally classified as non-core was not compliant. Management have identified further expenditure which they consider more properly falls to be recorded as non-core: a salary accrual of which the agreement and basis is uncertain and disputed expenditure payments which are unlikely to be paid. The impact of these adjustments has resulted in a decrease in non-core expenditure of £1.3m and a corresponding increase in core expenditure of £1.3m. We have agreed with this assessment based on the evidence provided and are satisfied that non-core expenditure has been reasonably presented. In addition, we have asked the accountable officer for assurances that core and non-core expenditure have been fully assessed and properly disclosed in the accounts.

Appendix IV, Action plan 3

Additional support from SGHSCD

The additional funding received in January 2016 contributed to the Board achieving financial balance as stated in the original accounts presented to audit. However, as stated above, core expenditure was covered by this funding. It is our view that this allocation may have contributed towards the incorrect classification of costs in order to achieve financial balance. The Board and the SGHSCD need to discuss the allocations, their type and their timing to enable better financial planning and thereby minimise financial risk to the Board.

Appendix IV, Action plan 4

Accounting for property, plant and equipment (PPE)

Surplus assets

IFRS13, Fair Value Measurement, came into effect in 2015/16. This requires surplus assets to be clearly identified and to be revalued at Fair Value, unless there are restrictions on the asset which would prevent access to the market at the reporting date, in which case the asset should be valued at current value in existing use.

We found no clear distinction in the accounting records of those assets which are deemed to be surplus. Consequently one could not readily conclude whether surplus assets were correctly valued. The property committee minutes identify 25 assets to be sold or disposed of, of which only some have been declared as surplus.

Additional audit work had to be conducted to determine which assets are surplus, and consequently whether the appropriate basis for their valuation has been applied.

Management has now explained to us the range of restrictions which exist which prevent the ready marketing of certain assets. This therefore negates the need to revalue those assets as 'surplus' or 'assets held for sale'. This is in accordance with the Capital Accounting Manual and guidance received from the DVS.

Based on discussions and evidence provided by officers we are assured that assets identified as surplus are not materially misstated.

Accounting treatment of reserves associated with assets held for sale

Where assets have been identified for sale the NHS Capital Accounting Manual states that any associated Revaluation Reserve should be transferred to the General Fund. NHSGGC had revaluation reserve balances relating to assets classified as held for sale. Therefore the revaluation reserve was over stated.

Officers agreed to amend the revaluation reserve balance and transfer the appropriate amount to the General Fund.

Accounting for property, plant and equipment (PPE) (cont'd)

Valuation of assets held for sale

When a surplus asset is classified as held for sale, the asset should be revalued to the lower of carrying amount or fair value less cost to sell, bearing in mind that when it goes from operational to surplus it will have been revalued to fair value. None of the 6 assets initially classified as held for sale had been revalued on this basis. In particular, we noted from the property committee's minutes that two of those assets had the potential to achieve a gain of £17m which was far greater than the carrying value. There was a risk that non current assets and the revaluation reserve were understated.

As a consequence of this audit finding management engaged the District Valuation Service (DVS), an independent expert, to review the value of the six assets held for sale. This resulted in an increase in value, but of a lesser amount, of £3.2 million, due to the current status of those sales. At this late stage management have decided not to amend and the £3.2m has been taken to the summary of unadjusted differences. On further examination management have also decided that four assets do not meet the criteria to be classified as assets held for sale and reclassified them. We are satisfied as to the amendments processed in this respect.

Completeness of 'assets for sale' category

From our review of NHSGGC's Capital Receipts Programme we noted a number of other sites which were being actively marketed as at 31 March 2016 for sale within the next 12 months. We sought an explanation from management as to why these were not classified as assets held for sale and consequently not revalued on that basis. There is a risk that the values of such assets are over or under stated. This also has implications for the revaluation reserve and the Comprehensive Income and Expenditure Statement.

Officers have advised that although these sites are being actively marketed, they do not consider that them to fulfil all the requirements so as to be defined as assets held for sale and that experience has shown that such sales are rarely concluded quickly.

Consequently we are satisfied with the current categorisation of these assets.

Accounting for property, plant and equipment (PPE) (cont'd)

Overall conclusion on property, plant and equipment

We have discussed all these matters with the Director of Finance and examined the late additional information which was presented as audit evidence. In addition, in view of the degree of judgement that has to be applied, we have sought management representation that non-current assets have been recognised, measured, presented and disclosed in accordance with the 2015/16 Government Financial Reporting Manual and that there are no plans or intentions that are likely to affect the carrying value or classification of the assets within the financial statements.

These findings together with the matters raised in our interim report on 'Accounting for PPE' (issued in May 2016) reflect areas for improvement within the accounting and reporting systems for non-current assets.

Appendix IV, Action plan 5

Equal Pay

In 2014/15 the Director of Finance for the SGHSCD advised that equal pay claims were to be included as a provision in the accounts of NHS Boards because an offer of settlement in relation to certain claims had been made. There have been significant developments in 2015/16 whereby these claims are due to be settled. SGHSCD has provided funding to cover the costs of equal pay which are included in the accounts. We can confirm that the Board has properly accounted for equal pay in accordance with Scottish Government guidance. **This matter is now closed.**

Clinical Negligence and Other Risks Indemnity Scheme (CNORIS)

The Board holds significant liabilities in connection with claims for clinical and non-clinical negligence: £56.3m in the CNORIS provision and £32.6m in Trade Payables. The latter relates to 6 structured settlements and which were also recognised in the accounts in 2014/15. These structured settlements represent compensation claims which have been agreed by the Board and have been settled on the basis of an initial lump sum with annual payments being made over the life of the claimant. The accountable officer has provided written representation on the adequacy of the basis for estimation in the absence of national guidance to calculate the liability. The Board, being part of the CNORIS scheme has a matching asset which represents 89% of this liability.

In addition, there is a total provision for £102.5m which reflects NHSGGC'S contribution to the national CNORIS scheme. Last year was the first year in which the funding of the scheme was accounted for at individual NHS Board level. There is therefore increasing transparency of the cost of clinical and non-clinical negligence to NHS Scotland.

For information only

Trades payables – accruals

Our audit review identified a number of year end accruals for which no goods or service had been received or where evidence was not available to support the accrual. In addition we also identified specific funding from the SGHSCD for projects, where, due to the nature of those projects, not all of the funding had been spent by year end. We are able to record that the quality of evidence provided continues to improve. As a number of these accruals were unsupported, management agreed that accruals are overstated by £0.3m (2014/15:£2.4m). We have discussed with the Director of Finance the need to review this area in conjunction with the SGHSCD and NHSGGC finance staff to ensure that liabilities are only accrued when there is a constructive obligation and that funding for special projects better reflects the planned phasing of expenditure.

We have reviewed the associated working papers and are able to accept the evidence provided. Management have advised that they will continue to improve the working papers in support of the accruals.

Appendix IV, Action plan 6

Goods received not yet invoiced (GRNIs)

Included within trade payables are accruals for GRNIs. Our audit testing identified a number of GRNIs which referred to goods received in prior years. Officers advised us of a system processing fault and were able to provide some evidence to support a number of the accruals. We have also discussed the need for officers to undertake a review of the underlying systems and processes which provide the information for inclusion within the financial statements.

In addition to our review of the associated working papers, we have asked management for assurances that the purchasing system used to calculate the accruals provides a fair reflection of the actual liability.

Appendix IV, Action plan 7

Endowment funds

IAS27 *Consolidated and Separate Financial Statements* requires host Boards to consolidate endowment funds established by the National Health Service (Scotland) Act 1978 into their financial statements. The endowment funds figures used in the consolidation process were based on a draft set of endowment fund accounts. Whilst the audited accounts have not yet been published, the auditors of the endowment funds have completed their audit. We await confirmation that there are no matters identified that would impact on the figures consolidated into the Board's accounts. The audited accounts for the endowment funds are due to be signed on 28 June 2016.

We await sight of the wording of the audit certificate on the endowment funds before signing the group audit certificate.

For information only

Integrated Joint Boards (IJBs)

On the basis that no single party controls the arrangement on its own and that any one of the parties can prevent any of the other parties from controlling the arrangement, the accounting for IJBs is as defined by IFRS 11 *Joint Arrangements*. Joint control is defined as "the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control". IFRS 11 notes that an interest in a joint venture shall be recognised as an investment and shall be accounted for using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures*.

The IJB figures used in the Board's financial statements were based on draft sets of accounts which were received on 13 June 2016. Whilst the audited accounts for the IJBs are not due to be signed until 30 September 2016, in accordance with the local government accounting timetable, arrangements have been put in place for us to receive appropriate assurance from the auditors of the IJBs.

For information only

Consolidation of IJB accounts

As noted above, material expenditure has been incurred by the integrated joint Boards. 2015/16 required the consolidation of 3 operational IJBs. While the impact on the outturn is not material, separate disclosure is required across a number of the notes in the Board's accounts. The inclusion of IJBs for the first time in the group accounts has required separate disclosure of £166.9m within note 4 (hospital and community health expenditure) and note 8 (operating income) £166.7m. Note 33 which reflects consolidation adjustments recognises the £1.5m investment which is NHSGGC's share of the reserve balance being carried forward by each of the IJBs. This investment in the group accounts represents 50% of the Board's interests in the three joint ventures. The associated accounts have not yet been subject to audit but for the purpose of the NHSGGC group accounts, there is unlikely to be any variation between the unaudited and audited results which could have a material impact on the group accounts.

For information only

Future accounting and auditing developments

Health and Social Care Integration –

31. As noted earlier, from 1 April 2016 the remaining 3 IJBs which were not operational in 2015/16 (Glasgow City, Renfrewshire and Inverclyde) will be accountable for the provision of health and social care. There were significant challenges in achieving the Board's statutory reporting obligations with 3 operational IJBs in 2015/16. The inclusion of a further 3 in 2016/17 will increase the challenge.

Appendix IV, action plan 2

Restructuring of the NHS in Scotland

32. The First Minister recently referred to the need for the structures of the NHS and its relationship with local government to reflect the way in which health and social care was being delivered. As a consequence, there is an intention to build upon the integrated approach and review the number, structure and regulation of health Boards and their relationship to local councils. There are currently 22 health Boards and 31 new local integration bodies to deliver health and social care. The challenge will be for Boards to focus on

the delivery of essential services to its users whilst change is once again being considered at the highest levels.

Audit appointment from 2016/17

- 33. The Auditor General for Scotland is responsible for the appointment of external auditors to Scottish health bodies. External auditors are appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment round.
- 34. The procurement process for the new round of audit appointments was completed in March 2016 following which Audit Scotland was appointed auditor for NHSGGC for the five years commencing 2016/17 although with a different audit team. Your new appointed auditor will be David McConnell and the Senior Audit Manager with operational responsibility for the audit will be Elaine Boyd.
- **35.** We would like to thank Board members, audit committee members, executive directors and other staff, particularly those in finance, for their co-operation and assistance over the last five years.

Financial management and sustainability

Core revenue resource limit (CRRL) £2,197.5m	Non-core revenue resource limit (NCRRL) £113.6m	Capital resource limit (CRL) £81.3m	Total savings target £59.6m
Outturn CRRL £2,197.3m	Outturn NCRRL £113.6m	Outturn CRL £81.3m	Recurrent savings £48.1m
Underspend on CRRL £0.2m	Underspend on NCRRL £0	Underspend on CRL £0	Non-recurrent savings £11.5m

Financial management

- **36.** In this section we comment on the NHSGGC financial performance and assess the Board's financial management arrangements.
- 37. The Board, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorate (SGHSCD). The budget for revenue expenditure is termed the Revenue Resource Limit (RRL) and consists of core and non-core elements. The budget for capital expenditure is termed the Capital Resource Limit (CRL). Both funding streams are agreed annually with the SGHSCD.
- 38. The Board must ensure that expenditure is held within the resource limits set by the SGCHD. Regular monitoring of expenditure and income against these budget limits is central to effective financial management and keeping expenditure within agreed limits.

Financial performance 2015/16

- **39.** The Board's final RRL (£2,311.1 million) and CRL (£81.4 million) were agreed with the SGHSCD on 23 June 2016.
- 40. The Board had budgeted to break-even against its RRL in 2015/16. The actual out-turn position for the year was an underspend of £0.2m. Throughout 2015/16 the Board had been reporting an overspend whilst forecasting a year end break even position. Banked funds from 2013/14 and 2014/15 (£11.2m) were released by the SGHSCD to assist the Board in managing double running

costs in 2015/16, the year in which services were transferring to new hospitals.

41. The Board achieved its financial targets for 2015/16 as illustrated in Table 2. This however, was achieved due to a number of nonrecurring instances: as noted earlier, an £11.2m underspend to fund double running costs; a transfer of £3m from capital; nonrecurrent savings of £11.5m; and a £5m reduction in holiday pay accrual and the restructuring provision. Excluding the £11.2m underspend, this supported some £20-£25m of expenditure for which there shall be no recurring funding in future years. This demonstrates that the current service delivery model for NHSGGC is not sustainable.

Table 2: Summary of financial performance

Performance against budget limits	Target (£m)	Actual (£m)	Saving (£m)
Core revenue resource limit	2,197.5	2,197.3	0.2
Non-core revenue resource limit	113.6	113.6	0
Core capital resource limit	68.1	68.1	0
Non-core capital resource limit	13.3	13.3	0
Cash requirement	2,466.5	2,466.5	0

Source: NHSGGC 2015/16 Financial Statements

- 42. The final outturn position reflects an overspend within the Acute Services Division (ASD) of £9.9m which was met by an underspend of £1m in the Partnerships Division and £9.7m non-recurring savings from corporate budgets (for example land sales, VAT rebates and additional efficiency savings).
- 43. The overspend in ASD was the result of increased activity levels, the requirement to achieve waiting list initiatives and treatment time guarantees, increased usage and cost of medical agency staff, increased usage and cost of nurse bank and agency staff. Senior medical agency spend at £9.1m (2014/15: £6.9m) and junior medical agency at £8.4m (2014/15: £5.8m) for the 12 months to March 2016 exceed expenditure levels from 2014/15 by some £5m. Nurse bank and agency staff cost £3.1m more compared to last year. Additional costs are largely related to higher than usual sickness/absence levels in 2015/16. We are also aware that the vacancy rate for nursing and midwifery rate has increased by 16% in comparison to last year.

Efficiency savings

44. NHSGGC, in common with other territorial health Boards, was required to make efficiency savings totalling 3% of its baseline RRL in 2015/16. This equated to a savings target of £59.6 million. The Board met its savings target for 2015/16 with £48.1 million (81%) achieved on a recurrent basis and the balance of £11.5 million (19%) on a non-recurrent basis. These significant non-recurring savings highlight the financial pressures the Board is currently facing.

Capital resource limit 2015/16

45. The Board spent a total of £81.3m on capital projects during 2015/16. This amount was within its final CRL of £81.3m; during the year £20m (20% of the original allocation) was returned to the SGHSCD on the understanding that the funding would be available for spending in 2016/17. We note with concern that 20% of the original budget was not invested in Board capital plans as originally envisaged.

Appendix IV, action plan 8

- **46.** The key area of the 2015/16 programme was the continuing work on the new South Glasgow Hospitals (SGH) project. £24.7m was spent on this project during the year, with a further £23m reflected in the note to the accounts as capital commitments.
- 47. Expenditure on other major capital projects included the upgrade of existing and continuing SGH sites (£6m); eHealth ICT (£4.2m), property upgrades (£10.5m) and medical equipment (£14.7m).

Financial management arrangements

48. As auditors, we need to consider whether health bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Director of Finance has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the Board
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.
- **49.** The Board's standing financial instructions and standing orders are updated annually and we are able to conclude that they are comprehensive and current.
- 50. Financial monitoring reports (both revenue and capital) are submitted to all meetings of both the Board and the Acute Services Committee. Management continue to review and revise the monitoring reports to ensure they provide members with a more comprehensive range of financial information.
- 51. Reports are necessarily at a strategic level and lack detail. Whilst more detailed discussions take place at Board seminars and at member/officer off-line discussions, Board members themselves have expressed that, in view of ongoing financial pressures, they would welcome the opportunity to revisit current arrangements in order to more rigorously hold key budget holders to account in a

formal setting. We would agree with this view and we are aware that the Board chair is currently reviewing processes. More detailed monthly financial monitoring reports are provided to budget holders.

52. As auditors we attend a number of Board and committee meetings each year. Members provide a good level of challenge and question management on significant variances and service performance issues.

Conclusion on financial management

53. We have concluded that the Board has sound financial management arrangements that support the review and scrutiny of financial performance and the achievement of financial targets.

Financial sustainability

54. Financial sustainability is concerned with whether the Board has the capacity to meet the current and future healthcare needs of the communities it serves. In assessing financial sustainability we are concerned with the Board's financial performance, financial planning and its use of resources principally asset management and workforce management.

Financial planning

55. The Board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The LDP recognises that the vast majority of

resources are already committed on a recurring basis before the start of each year and there is limited flexibility available to the Board.

- 56. The Board's five year plan for the period 2016/17 to 2020/21 is a key element of the LDP. The draft plan has been compiled to reflect a break-even position in each of the five years. The plan also recognises the significant cost pressures facing the Board going forward, notably staff pay costs and the growing costs of drugs. Also, there is a rising demand for services particularly among the elderly. From 2017/18 onwards the funding uplift has been assumed to be 1.8%. All these pressures exacerbate a tightening financial position.
- **57.** The 5 year financial plan is currently in draft form and requires some refinement and updating for the years subsequent to 2016/17. It is anticipated that it will be finalised and presented to the Board on 28 June for approval and final submission to the SGHSCD.
- 58. The basic funding uplift for 2016/17 is 1.7% although further funding uplifts have been made available to cover the integrated care fund, drug cost pressures and delayed discharges.
- 59. A range of cost pressures have been identified and these include pay costs (£50.5m), prescribing (£24.5m), other cost inflation (£10m), funding transfer to IJBs (£59.1m) and £7m to fund specific service pressures and new initiatives.

- 60. Savings will therefore play a crucial part in maintaining financial balance over the 5-year period and the realisation of savings will become progressively more challenging year on year. The challenge for the Board is to achieve savings of £69m (3% of baseline) in 2016/17. These savings will need to be planned for on a recurring basis.
- 61. It has been estimated that savings will be achieved largely through workforce rationalisation and reductions in facilities' costs and procurement. The Board has identified savings of £46m as being low and medium risk with the remaining highlighted as high or 'red' risk. Within the 'red rated' schemes are some clinically led schemes which will require service delivery changes (£8m) and which were originally deferred from 2015/16 following discussions with the SGHSCD. Efficiency savings of £10m remain to be identified. Furthermore, by relying on non-recurring savings to achieve financial balance in 2015/16, the Board will have to find further recurring savings in 2016/17.
- 62. It has already been recognised that non-recurring cash savings will be required to achieve financial balance at 31 March 2017. As at June 2016, the Board anticipates a funding gap of £24m for the 2016/17 financial year. Non recurrent coverage has been identified for 2016/17. (refer to para 80)
- 63. The Director of Finance has stated in the LDP that 'Whilst the Board at this point continues to work toward a balanced budget for 2016/17, it is apparent that again in 2016/17 the Board will be reliant

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on non-recurring sources of funding to achieve in-year balance. This position is clearly not sustainable. It is critical the Board now embarks on a process to devise a plan for 2017/18, in conjunction with Integrated Joint Boards, to ensure a model of affordable service delivery and quality patient care up to, and beyond, 2020'.

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Backlog maintenance

- 64. In March 2015, the annual State of NHS Scotland's Assets and Facilities report was published by the Scottish Government. It identified backlog maintenance of £797m across Scotland which is required in order to bring assets to a satisfactory condition. NHSGGC accounts for 24% of this total. The report acknowledged that this would reduce by some £12m once the new hospitals were fully operational and the older buildings vacated and closed. The 2016 report is due to be published shortly.
- 65. Of the 10 NHS Scotland hospitals with the highest total cost for backlog maintenance (£290m), NHSGGC has 3 hospitals with backlog maintenance costs of £97m. NHSGGC has plans in place to address this backlog as part of an ongoing investment programme. Prioritisation of investment on these properties would make a significant contribution to reducing NHS Scotland's backlog maintenance burden.
- **66.** In recognition of the backlog maintenance, a transfer from capital to revenue funding of \pounds 3m was agreed by the SGHSCD in 2015/16.

There remains a challenge in ensuring the older estate remains fit for purpose.

Workforce Management

- 67. Workforce planning is integral to the Board's strategic planning process and is a key element of the LDP. The availability of staff is an important factor in the Board's capacity to provide safe patient care. As noted previously, NHSGGC's overspend in the Acute Services Division (ASD), was largely attributed to the costs of employing agency staff. As part of our 2015/16 audit we undertook a targeted review of the controls in place relating to agency costs, nurse bank costs and the related issue of high sickness absence levels in the Board's ASD.
- **68.** Our report which we presented to the Audit Committee in May 2016 noted that:
 - NHSGGC total expenditure on external agency staff has risen in recent years; from £17.4m in 2013/14 to £29.2m in 2015/16 (68% increase)
 - within the ASD, agency consultants and agency junior doctors (referred to collectively by the Board as 'medical agency locums') account for £16.6m of the ASD's annual spend on agency staff (£12.8m in 2014/15). By ASD staff category, the largest increases this year were for agency consultants and agency junior doctors (an increase of £4.0m from the prior year)

- contrary to Board policy, medical agency locums are being used to provide long term cover. This may not represent value for money and places a strain on the Board's resources
- the Board, in common with the NHS in Scotland generally, faces challenges recruiting medical staff in certain specialties and locations
- increased nurse bank and nurse agency costs have been incurred as a consequence of rising sickness absence and increased activity
- we found that high sickness rates in both north and south sectors are driven mainly by long term sickness absence. The South Sector's sickness absence is particularly high and averaged 8.7% in the period reviewed (July to December 2015). Across the same period the North Sector reported an average absence rate of 7.3%. These average rates are well above the 4% Local Delivery Plan target rate
- nurse bank expenditure has risen from £28.2m in 2013/14, to approximately £34.0m in 2015/16. Sickness levels have also impacted on agency usage, with acute agency nurse spend rising to £1.7m in 2015/16 (2014/15: £0.6m)
- nurse bank and agency staff were being used to cover long term sickness which is contrary to Board policy
- there is scope for improving the reporting of sickness absence and return to work discussions in order to provide management

with better information to monitor sickness rates and take effective action.

- 69. Management advised that an Agency Locum Steering Group has been set up to assist the Board in its overall review of its use of agency staff. The matters raised in our report will be taken forward by this group.
- **70.** We acknowledge that the use of bank, agency and locum staff provides flexibility to cover for vacancies and staff absence. We are also aware that their increased use and related cost impact are national issues. However, continued reliance on such staff could have an impact on the Board's plans to achieve the savings required for longer term sustainability.
- 71. As with other health Boards, NHSGGC is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence. Overall the annualised sickness absence rate at 31 March 2016 was 6.1% compared to the Scottish average of 5.1%. We have referred to the increasing levels of nurse staff sickness absence previously. The Board is committed to managing sickness absence downwards.
- 72. The 2015/16 financial statements include £980k of costs relating to 35 exit packages (2014/15: 11 packages, £468k). These relate to settlement agreements which have been acknowledged by the Board as offering a recognised way for employees to leave the organisation on a mutually agreed voluntary basis. We tested a

sample of payments and noted that each agreement was as a result of a service redesign process, was supported by a business case, and had been appropriately authorised.

Cost of pension provision

- 73. As part of the reform of public service pensions across the UK, new Career Average public service pension schemes were introduced from 1 April 2015.
- 74. A revaluation of the NHS in Scotland pension scheme was undertaken in 2014/15 using pension scheme data as at 31 March 2012. A new employer contribution rate payable from 1 April 2015 to 31 March 2019 was set (from 13.5% to 14.9%) which led to an increase in costs of £16m during 2015/16.
- **75.** The 2016/17 financial plan reflects a provision of £25m in respect of the abolition of the employers' "contracted out" rebate for staff members of the NHS Superannuation scheme.

Public Finance Initiative (PFI) / Public Private Partnerships (PPP) costs

76. NHSGGC has a number of PFI commitments which are disclosed in the accounts. Seven contracts are reported on balance sheet and include the Stobhill and Victoria Hospitals ambulatory care and diagnostic treatment centres and elderly and mental health facilities. The capital value of these projects has been included as part of the Board's non current assets at a value of £249.3m. The associated recurrent revenue cost of these schemes is £29.7m with gross minimum lease payments of £515m due over the remaining repayment periods.

Conclusion on financial sustainability

77. The Board's financial planning and monitoring arrangements are sound and it has a track record of delivering efficiency savings. However, in 2015/16, non-recurring savings and sources of income were applied in order to achieve financial balance. Given the Board's own assessment of the risks it faces in delivering the five year financial plan, financial sustainability under the current funding model is under extreme pressure and more challenging than in previous years.

Outlook

- 78. The Board will continue to operate in a funding environment which is subject to sustained pressure to deliver more while facing increasing cost pressures and static or decreasing real terms funding. The achievement of performance targets and standards therefore becomes increasingly difficult.
- **79.** NHSGGC recognise the financial challenge ahead. The Director of Finance has reported that a balanced budget in 2016/17 will only be achieved through the further utilisation of non-recurring provisions and reserves.

80. The SGHSCD has agreed to revise how certain provisions are funded, and this will alleviate demands placed on the revenue resource limit. This was identified as part of the national Balance Sheet Flexibility Group and involves reclassifying the funding source of pre-2010 provisions, particularly in relation to Pension and Injury Benefit provisions. Some Boards benefited from this change in 2015/16 and NHSGGC will benefit by £32.5m through the reversal of these historic provisions in 2016/17. This should assist the Board in meeting its financial targets. This reversal does not impact on the actual level of provision as it relates to the funding source; however there will be a future charge to the revenue resource limit as a consequence.

Governance and transparency



- 81. The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of NHSGGC and for monitoring the adequacy of these arrangements.
- 82. There have been changes to the Board's governance structure. From 1 June 2015 a new Acute Services Committee (ASC), focussing on acute services was set up following the winding up of the Quality and Performance Committee (QPC) which met once during the year. This change required as a result of the establishment of IJBs with their own governance arrangements. It

provides a focus for the scrutiny of clinical governance, performance, patient safety, quality and finance. The Board is supported by a number of other standing committees as illustrated below.



Corporate Governance

- **83.** The ASC's function is to scrutinize the governance and strategic direction of acute services. It is responsible for overseeing:
 - the quality of patient services

- effective patient safety and governance systems
- delivery of corporate objectives and the LDP
- financial planning and management
- staff and patient focused public involvement
- that learning from performance issues drives improvement.
- 84. The ASC met five times during 2015/16 and has a very full agenda. An Audit Scotland representative attends the meeting as an observer. The Staff Governance Committee oversees the Remuneration Sub-Committee.
- 85. The audit committee exercises scrutiny in its consideration of internal audit work programmes and outputs and receives all external audit reports. In addition fraud updates are regularly discussed and the corporate risk register periodically reviewed. We are aware that one meeting was inquorate but that steps have been taken to ensure that this is avoided in future.
- 86. The audit committee also considers risk management arrangements and a corporate risk register is considered regularly. The committee is supported by the Risk Management Steering Group who review the risk register regularly and determine the risks which should be included on the corporate register.
- 87. In April 2016, the Board approved changes to the NHSGGC Standing Financial Instructions and Scheme of Delegation, and Fraud Policy. The main changes incorporate the requirements of

the Public Bodies (Joint Working) (Scotland) Act 2014 and the new organisational structure established by the Board.

- A revised management structure with three territorial and four cross-system directors was introduced in June 2015. These changes continue to bed in.
- Based on our observations and audit work our overall conclusion is that governance arrangements within NHSGGC are operating effectively.

Internal control

- 90. As part of our audit we review and test the Board's systems of internal control for the purposes of our audit of the financial statements. Our objective is to obtain sufficient audit evidence to support our opinion on the Board's financial statements.
- 91. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
- **92.** We presented a number of audit reports to the audit committee over the year and these are detailed in appendix II. We raised a number of matters arising in each of these reports and management have provided responses together with a timescale for action.

93. We advised the accountable officer that the matters raised in these reports should be considered as part of the assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement. We are aware that disclosure has been made in respect of matters raised in our report on the Review of Agency Staff, Nurse Bank Staff and Sickness Absence. After consideration of the matters raised in our review of accounting for property, plant and equipment report together with the matters raised in this report, an additional disclosure has been included in relation to future action to address the weaknesses identified.

Shared Services

- 94. There are a number of systems where NHSGGC is dependent on another NHS body for the provision of services. NHS National Services Scotland (NSS) provides Practitioner Services and National Information Technology systems and contracts. From 1 April 2013 the board has been using the eFinancials National Single Instance (NSI) to record financial ledger transactions. NHS Ayrshire & Arran has responsibility for the support of these finance systems.
- 95. In accordance with International Standard on Assurance Engagement 3402 (ISAE3402), NHS Ayrshire & Arran and NHS NSS commissioned service auditors to provide independent assurance that key controls and processes are operating satisfactorily. All opinions from service auditors were unqualified for 2014/15 but some matters arising were identified. Management

should continue to work closely with the host boards to ensure adequate resolution of the matters identified for improvement.

Internal audit

- 96. Internal audit provides the Board and accountable officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by PriceWaterhouseCooper (PwC). We carried out a review of the adequacy of internal audit. Based on this review and our local knowledge of audit arrangements at NHSGGC we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
- **97.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2015/16 we placed formal reliance on aspects of internal audit's work including accounts payable, payroll and property, plant and equipment.

ICT audit

98. ICT is a key area of control because it underpins all systems used by the Board. This year our ICT audit work included a Computer Services Review (CSR) which was issued in January 2016. This review considered the processes involved in managing computer systems and protecting the information stored on them. Although

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the report does not highlight any particular risks, we noted a number of areas where significant developments are taking place and have highlighted the challenges and opportunities facing the Board in tackling these. These included:

- the upcoming review of the Health Information and Technology (HI&T) structure provides an opportunity to review the complex governance landscape
- the challenge remains to ensure that user access to information resources is properly managed
- the implementation of privacy guarding software FairWarning, has not progressed as quickly as expected due to technical issues. Once fully implemented, experience shows that, initially, the number of investigations resulting from this will be significant
- disaster recovery arrangements for IT systems require services to keep their own business continuity arrangements tested and up-to-date, to ensure they can continue providing care even if technology is not available.
- **99.** The Director of eHealth agreed with the messages relating to key areas and provided full management responses.
- 100. Our Annual Audit Plan referred to the developing threat of cyber attack and related activities. Previous ICT internal audit work had established that the risk of cyber attack was not being proactively monitored nor was it considered to be a corporate risk. We

therefore reviewed NHSGGC's level of preparedness and proactive measures being taken in this area.

- **101.** Our review identified:
 - the 2010 National Security Strategy identified cyber as one of the top threats to the UK. Although the Board's risk register includes a general risk relating to information management and security, it does not recognise cyber security as one of the highest priority national security risks.
 - The Board has recognised in the corporate risk register that staff might not always be aware of the range of information security policies and procedures in place and the significance of not following them. As nearly all successful attacks require the assistance of an innocent person inside the organisation, the Board should not only expand their information security awareness training, but also consider measuring the extent to which staff implement the knowledge gained from the training and awareness campaigns.
 - The Board has reviewed its allocation of responsibilities for information security following publication of guidance from the Scottish Government in 2015. Information security is now divided amongst a variety of officers, with the Director of Finance acting as the Senior Information Risk Officer, the Director of Public Health as the Caldicott Guardian and the Director of eHealth responsible for the technical security of the Board's ICT systems. However, the interaction and

collaboration between these roles remain subject to further development.

- Cyber-attack incidents are managed through the Board's eHealth major incident processes. However we are aware that there has been an inconsistent classification of incidents resulting in one cyber attack not being identified as a major incident.
- The Board has had cyber-attacks in the past, some of which were subject to formal major incident reports and others not. Although the Board has measured the time taken to recover from major incidents, the impact and cost on the Board's activities relating to these have not been assessed.

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- **102.** We also issued two follow up reports (May and June 2016) which followed up on progress addressing outstanding ICT control issues from prior years.
- 103. Our first report followed up 6 areas of risk exposure relating to governance, procedures and security with respect to user identity management and to ICT change management. We were pleased to note that good progress had been made with reducing the risk exposure relating to user management, though noted the ongoing risk to the Board's information resulting from continued inefficiencies in user identity administration. Management updated action taken to date and provided revised timescales for action.

- 104. The second report followed up on 7 issues relating to governance, procedures and testing with respect to business continuity management for selected finance functions. We acknowledged that internal audit were taking forward 2 of the risks as part of their work on business continuity, but noted delay in implementing the remaining 5 actions. Following discussion with management, revised actions and timescales on 3 of the risks have been agreed. In relation to the remaining 2 matters, management have advised that they do not intend to take any further action; they consider that there are mitigating controls in place to address the risks. We have advised officers that without fully documented and tested business continuity arrangements the board might not be able to effectively deal with a disruptive event and continue providing their services as required by the Civil Contingencies Act 2004. We also reported that, as a consequence, in respect of the systems reviewed, they will not comply with the Board's Business Continuity Management strategy.
- **105.** Subject to our comments raised above, we concluded that the Board's ICT arrangements are effective.

Arrangements for the prevention and detection of fraud and other irregularities

106. We assessed the Board's arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing policies and procedures in a number of areas including whistleblowing. The Board also works closely with

Counter Fraud Services (CFS) to raise awareness and provide training on fraud prevention and detection.

107. We concluded that the Board is proactive in promoting fraud awareness and had effective arrangements in place for fraud detection and prevention during 2015/16.

National Fraud Initiative in Scotland

- 108. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.
- 109. The current NFI exercise identified a total of 6,273 matches of which 780 were recommended for investigation. 589 matches of these related to one specific report (duplicate creditors). Officers carried out a filtering exercise on this report to identify the higher risk cases on which to focus investigation.
- 110. As at 8 June 2016 the Board had investigated 452 matches, with 28 matches still in progress awaiting responses from other bodies. Three cases resulted in further action: one related to a potential fraud, where an employee attended a training day while claiming to be on sick leave; two instances were errors (an expired visa and a

duplicate creditor's payment). The results of NFI activity are also reported to the Audit Committee regularly throughout the year.

111. We reviewed NFI progress as at February 2016 and concluded that good progress had been made investigating matches and recording outcomes on the NFI system. While the Board has potential to make use of more staff resources earlier on in the exercise to investigate data matches more promptly, the overall engagement with the NFI exercise is appropriate. The next biennial national NFI report is due to be published in summer 2016.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

- 112. The Board has in place a range of activities designed to maintain standards of conduct including codes of conduct for officers and members. There are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.
- 113. Based on our review of the evidence we concluded that the Board has effective arrangements in place for the prevention and detection of corruption.

Transparency

- 114. The performance of all NHS Boards is subject to an SGHSCD-led annual review process. The annual review aims to encourage dialogue and accountability between local communities and their health boards. The annual review for NHSGGC was held on 20 August 2015 and was hosted by representatives from the Board including the Chief Executive and led by the Chair. There was an open session where members of the public could attend to ask questions of the Chief Executive and the Board.
- 115. Members of the public can also attend meetings of the Board and have ready access to Board papers on the internet. The Board papers provide comprehensive information on all aspects of performance including waiting times and access targets, and measures being taken to address them. Minutes to all committee meetings are included as part of the Board papers.
- 116. The Board's website was redesigned last year and includes useful information on how to access services and general information. It includes details of Board members and has a register of members' interests. An on-line register of interests for all Board staff was also re-developed and is available on the staff intranet. We did however note that the Board online register of interests was not fully up to date and that some of the linkages in the search function did not lead to the most up to date information. It is essential that the website is regularly reviewed, maintained effectively and kept up to date in order to ensure access to information.

117. Whilst we concluded that overall the Board is open and transparent we note some committees (e.g. Acute Services, Audit and Staff Governance) are held in private in accordance with the Board's standing orders. There may be scope for extending openness and transparency through, for example, publishing agendas and papers from other meetings, holding meetings in public, broadcasting meetings or providing recordings of meetings on the website.

Freedom of Information (FOI) requests

118. NHSGGC completed 90% of FOI requests within the 20 day statutory time limit, compared to the target of 90%, for 2015/16. The Head of Board Administration is currently finalising the Freedom of Information Annual Report for 2015/16 which will be submitted to the Board in August 2016. We have no significant concerns about the procedures followed by the Board in processing FOI requests.

Update on eESS project

119. The implementation of the new NHS Scotland eESS (HR system) has been further delayed this year and the system is still not being used by the Board. NHSGGC is the host Board for this project and it receives all funding on behalf of all NHS Scotland health Boards. Expenditure in 2015/16 was £1.7m relating to the eESS project. The costs to date for the IT project as at March 2016 (from 2008/09) total £8.7m.

120. Officers have advised that the continued delay is due to problems with the interface between eESS and ePayroll. The project is now over 2½ years behind schedule. A working group of Chief Executives is taking this project forward.

Update on Vale of Leven Inquiry

- 121. The Vale of Leven Hospital Inquiry Report into the circumstances contributing to the high occurrence of C.difficile at the Vale of Leven Hospital was published in November 2014. Following publication of the report NHSGGC were required to carry out a self-assessment of progress against the 65 recommendations directed at health Boards.
- 122. During 2015/16 the Medical Director reported regular progress updates to the ASC against the recommendations. The Board also formed a Short Life Working Group (SLWG) to review ongoing progress. At the ASC meeting in May 2016, it was reported that 62 of the 65 recommendations falling to NHS Boards are considered complete and 3 have related ongoing activity to mainstream work across the organisation. A final report is due be submitted to the ASC and the Board by July 2016.

Review of Beatson Cancer Centre

123. In October 2015 Healthcare Improvement Scotland (HIS) published a report of its review of the Beatson West of Scotland Cancer Centre (BWoSCC or Beatson). This followed concerns raised with the General Medical Council by medical staff, which related to proposals for clinical support for the continuing activity and case mix managed in the oncology and blood cancer services provided by the BWoSCC on the Gartnavel General Hospital campus.

- 124. HIS raised a number of points in their report, recommending that NHSGGC agree a new model of care for seriously ill patients and put in place governance arrangements that regularly monitor the effectiveness of the implementation of the model of care. In addition, NHSGGC should take urgent action to restore and rebuild working relationships and respect between consultants at the Beatson and the NHSGGC management team.
- 125. The Board held a stakeholder event on 30 November 2015 involving clinicians from a range of specialties. The purpose of the meeting was to consider the data and learning to date to help inform the development of a robust and sustainable solution to support the BWoSCC, recognising that the current On Call Anaesthetic solution was not viable in the long term. Robust Clinical Governance arrangements have been established to provide assurance of safe care. The latest progress report on the recommendations was provided to the ASC in May 2016. This set out that the Board has established the BWoSCC Future Steering Group (and five sub groups) to address the recommendations and to agree a sustainable Vision for the BWoSCC, examining short, medium and long terms strategies. The Medical Director will

continue to report progress against the HIS recommendations to the ASC going forward.

Healthcare Associated Infection (HAI)

- 126. The Healthcare Environment Inspectorate (HEI) process provides assurance to the Board on the effectiveness of infection control. 5 HEI inspections of Safety and Cleanliness took place across NHSGGC in 2015/16 which resulted in 2 recommendations and 8 requirements. These outcomes were reported from inspections at Stobhill Hospital, Gartnavel General Hospital and Royal Alexandra Hospital. The Board is working to address all issues raised and actions have been put in place.
- 127. We conclude that the Board takes all independent reports and clinical governance matters very seriously and ensures that action plans are put in place with agreed timescales.

Integration of health and social care

- **128.** The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
- 129. The integration of health and social care services straddles both the local government and health sectors but only covers some of their functions. This is a change to the delivery of health and social care of considerable scale and complexity.

130. Audit Scotland published the first of a series of reports on the integration agenda in December 2015. This report, entitled Health and Social Care Integration, states that stakeholders have done well to get systems in place for integration, but that much work remains. The report outlines key issues that require to be addressed if the reforms are to be successful in improving outcomes for people. These are summarised in the extract below.

Partners need to set out clearly how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability and potential conflicts of interests for Board members and staff. There is a risk that this could hamper the ability of an Integration Joint Board (IJB) to make decisions about the changes involved in redesigning services. People may also be unclear who is ultimately responsible for the quality of care. In addition, IJB members need training and development to help them fulfil their role.

IJBs must have strategic plans that do more than set out the local context for the reforms. To deliver care in different ways, that better meets people's needs and improves outcomes, IJBs need to set out clearly:

- the resources, such as funding and skills, that they need
- what success will look like
- how they will monitor and publicly report on the impact of their plans.

NHS Boards and councils must work with IJBs to agree budgets for the new IJBs. This should cover both their first year and the next few years to give them the continuity and certainty they need to develop and implement strategic plans. IJBs should be clear about how they will use resources to integrate services and improve outcomes.

- 131. Three of six Health and Social Care Partnerships (HSCPs) became operational in 2015/16: West Dunbartonshire, East Dunbartonshire, and East Renfrewshire from July, September and October respectively. The remaining three, Glasgow City, Renfrewshire and Inverclyde, had functions delegated to them as from the 1 April 2016.
- 132. Apart from the Chief Officers, who are employees of their respective HSCPs, all other staff delivering healthcare functions delegated to HSCPs remain employees of the Board, and as such they are subject to the same clinical and corporate governance arrangements already in place. The Board has worked with the six local authorities to establish corporate governance arrangements within IJBs. This included terms of reference for IJB audit committees and assistance in establishing internal audit functions. It is important that the Board continues to work with councils to develop sound governance procedures, that these are implemented by IJBs, and that they support effective scrutiny of the resources delegated to the HSCPs.

2020 Vision

133. The Scottish Government's vision is that by 2020 everyone will live longer, healthier lives at home or in a homely setting. Audit Scotland published its annual overview report, <u>"NHS in Scotland</u> <u>2015"</u>, in October 2015. It found that the pace of change needs to increase if the 2020 Vision is to be achieved. The report recognised the importance of the Scottish Government and NHS Boards in ensuring that changes are underpinned by good longterm financial and workforce planning. The report also recognised the need to consider the implications for performance targets and standards and the NHS estate, as well as ongoing initiatives and reform programmes. By doing so, the report concluded, the Scottish Government and Boards will gain a better understanding of the nature, scale and impact of changes required.

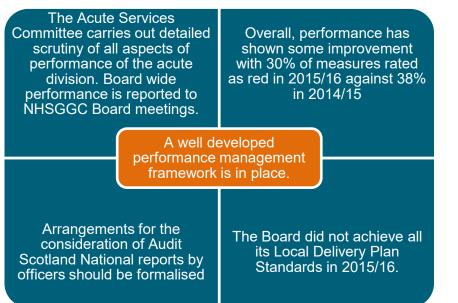
134. In August 2015 the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on improving the health of the population and on the future of health and social care. It is envisaged that the national conversation will be used to influence a programme of work to drive greater progress towards the 2020 vision and any necessary changes over the next 10 to 15 years. This is a clear signal from the Scottish Government that it intends to promote faster progress through NHS Boards.

Outlook

135. NHSGGC faces continuing challenges on a number of fronts including mounting financial challenges, exacting performance targets, health and social care integration and delivering the Scottish Government's aim of having people living longer and healthier lives at home or in a homely setting (i.e. the 2020 Vision). NHSGGC will use the Clinical Strategy and consultation responses as the basis for engagement for further consultation on specific change proposals. This work will aim to achieve the objectives of the 2020 Vision.

- 136. Sustaining robust governance arrangements will be an essential element in meeting these challenges and maintaining accountability. All stakeholders including patients, clinicians, the public, staff, executive and non-executive directors and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.
- 137. Health and social care integration is an important element in supporting the delivery of the Scottish 2020 Vision. The NHS Board and council partners will have to work hard to secure improved delivery of health and social care services now that the new structures are in place. This is an important strand of the Scottish Government's reform agenda.

Best Value



138. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.

Arrangements for securing Best Value

139. Best Value (BV) arrangements are part of business as usual within the Board. They are embedded in its planning processes, governance arrangements and its performance management and quality improvement frameworks.

- 140. The Board's Governance Statement includes a review by the Accountable Officer of the system of internal control. This is informed by assurance statements from executive managers and by internal and external audit reports.
- 141. The audit committee also receives a report from the Financial Governance and Audit Manager on the Review of the System of Internal Control. This report outlines the Board's commitment to best value and provides some evidence as to how best value is being delivered.
- **142.** Overall, we concluded that the Board has well-developed arrangements for securing BV and continuous improvement.

Shared services

143. The financial challenges facing the health service in Scotland are well documented. To meet these challenges and address the Scottish Government's 2020 Vision, sharing services has been given a new impetus. A Guiding Coalition comprising Board chairs, chief executives and SGHSCD was formed in 2015 and has been tasked with identifying the potential for further sharing of services.

Performance management

144. The performance of NHSGGC is monitored by the SGHSCD against a number of Local Delivery Plan Standards which support

the delivery of the Scottish Government's national performance framework. These targets and their trajectories (plans) are set out in the Board's Local Delivery Plan (LDP). As noted previously the 2016/17 LDP will be agreed by the Board in June 2016.

- 145. Previously performance against Board wide targets was reported to the Quality and Performance Committee (QPC). As noted above, this committee was wound up in June 2015 and the Acute Services Committee (ASC) was set up with a narrower focus.
- 146. Detailed scrutiny of performance within the acute division takes place at the ASC where progress against targets is reviewed and discussed. The measures reported include LDP standards, critical health and social care indicators and local key performance indicators. The performance reports include a single scorecard showing all measures, detailed sections on 5 strategic priorities, and exception reports for all performance measures rated as red.
- 147. Scrutiny of relevant health and social care standards and targets is undertaken at each IJB with oversight from the Board.
- 148. Since August 2015, performance against Board wide LDP Standards and other local standards is presented to each meeting of the Board in the form of a balanced scorecard. Additionally, the Board's overall performance is discussed at the Annual Review meeting referred to earlier.
- 149. Similarly, financial reports are submitted to each meeting of the Board and the ASC. These reports detail the current and projected

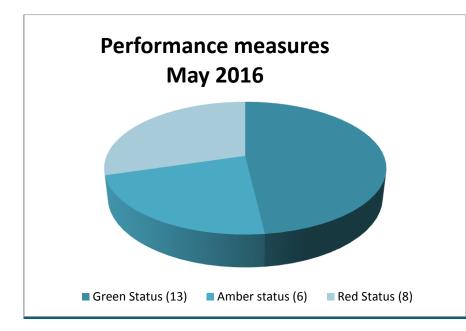
outturn position and remedial actions being taken to address and mitigate risks.

150. We concluded that the Board had a well established performance management framework in place during 2015/16, supported by good performance monitoring.

Overview of performance targets in 2015/16

- **151.** The performance report presented to the May 2016 ASC detailed performance against 37 separate measures. Of these 27 were given a performance rating; 7 were classed as grey as there was no trajectory to measure performance against and 3 were classed as narrative measures. The ratings given are green, amber and red, where:
 - Green means meeting or better than trajectory
 - Amber means within 5% of trajectory
 - Red means out-with 5% of meeting trajectory

Performance for the 27 measures given a rating is summarised in the following diagram.



- **152.** Those LDP standards and indicators currently being met include: the 18 week referral to treatment, CDiff infections, IVF treatment within 12 months, access to antenatal care and alcohol brief interventions.
- **153.** In some areas performance is slightly behind target (amber status) including: the percentage of accident and emergency waits less than four hours, cancer treatments and 12 week treatment time guarantee.
- 154. Areas of performance which fell short of targets by over 5% (red status) include: delayed discharge over 14 days, MRSA/ MSSA Bacteraemia, sickness absence rate, early diagnosis in first stage

of cancer and suspicion of cancer referrals (62 days). Areas of particular interest or concern include:

- 155. Unscheduled care. A&E waiting time performance against the 4 hour target of 95% was 90.6% as at March 2016 which is a slight improvement from the same period in 2015 when it was 88.5%. Performance has fluctuated over the year, and was as low as 78% in June 2015 during the migration to the new QEUH, and the Board has reported missing the 95% weekly target regularly.
- 156. Sickness absence. The level of sickness absence continues to exceed the 4% target. For the acute division, as at March 2016 the level of absence was 6% against 5.9% for the same period in 2014/15. Board wide, the figure as at January 2016 was 5.36% against 5.3% for the same period in 2014/15. The Board have reported a level of between 5-6% overall throughout the year, but there have been rates as high as 20% in Acute locations e.g. the QEUH campus. We issued a separate report in May 2016 on agency staff, nurse bank staff and sickness absence.
- **157. Delayed Discharge.** As at March 2016, there were 38 patients delayed over 14 days which is in excess of the target of 0. However this is a marked improvement from the same period in 2014/15 when there were 70 patients delayed by over 14 days. Performance has been variable throughout the year. The Board has tried to address the issues in several ways including placing delayed patients in care homes and placing a specialist team in the QEUH to improve the speed of discharge.

NHS Greater Glasgow and Clyde

158. Suspicion of cancer referrals. As at March 2016 performance against the 62 day target was 85% against a target of 95%. This is a deterioration from the same period in 2014/15 when performance was 91.7%. Explanations for performance being under target vary for the different types of cancer. For example, for breast cancer unplanned absences have impacted achievement of the target but this is felt to be a short term issue.

Local performance audit reports

- 159. As noted previously, our Annual Audit Plan referred to the financial sustainability risk of increasing agency costs. In addition, this also presents a workforce planning risk about the level of vacancies and agency locums which could affect the quality and efficiency of the service. Audit Scotland published a report on *Scotland's Public Sector Workforce* in November 2013. We carried out local follow up work to review NHSGGC's workforce planning arrangements in April 2016, based on the recommendations in the 2013 national report.
- 160. Overall we found that NHSGGC has a robust workforce plan and good governance arrangements in place. We identified several areas of good practice promoted by NHSGGC, including good governance structures to support local workforce leads and consultation with senior management and other key stakeholders. Other good practice includes providing a set methodology for local service workforce plans to follow. However, we identified some

areas of potential improvement and agreed these with management. These include:

- Development of Health and Social Care Partnership (HSCP) workforce plans: some HSCP plans are in draft, others are still to be completed due to the timing of their set up. NHSGGC workforce advisory groups should continue to monitor and support the development of HSCP plans.
- Succession planning: The Board offers a range of Executive and Leadership Development events managed by the organisational development team and learning and education team. However, there is little mention of succession planning in the Board's organisation wide workforce plan, with focus only on acute operational staff and focuses on short to medium term only. Succession planning should be considered for management positions across each of the Board's directorates over the short, medium and long term and incorporated into the workforce plan. We consider the absence of succession planning to be of particular concern in relation to the Finance Department.
- Use of agency staff: The workforce plan does not address the issue of the increasing use of agency staff and how the Board plans to deal with workforce vacancies. Discussions should be held with the Recruitment Section to potentially incorporate action plans into the workforce plan.
- Scenario planning: NHSGGC no longer use scenario planning as workforce leads found that it focussed primarily on the

financial aspect. The Board should consider re-visiting the use of scenario planning to identify aspects of the organisation which could benefit from this approach. Where uncertainty remains when creating their plans, Audit Scotland's good practice guide advises to use scenario planning to help model and plan for different situations.

Appendix IV, action plan 11

National performance audit reports

- 161. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Board. These are outlined in <u>appendix III</u> accompanying this report.
- 162. We have previously recommended that a formal process be introduced to ensure that Audit Scotland national reports are considered by officers. In 2015/16 a number of Audit Scotland national reports were presented to the audit committee and, for some reports, members of the Audit Scotland Performance Audit and Best Value team were present at the audit committee to discuss findings.
- 163. The response and follow-up to the national reports, however, is unclear. Some reports have been presented by Audit Scotland and officers have not presented their responses. For example for the NHS in Scotland 2015 report presented to the December Audit

Committee, officers advised an action plan was being formulated to address the issues raised in the report and that a checklist included in the report had been circulated to non-executive members. However, there has been no further follow-up of this at the audit committee so it is unclear what specific actions were taken.

164. Going forward, we recommend that officers introduce a more formal process to ensure Audit Scotland national reports are considered by officers and the actions taken are reported back to the Audit Committee.

Equalities

- 165. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the equality outcomes it has set.
- 166. NHSGGC produced a report covering the period 2013-15 in April 2015. A monitoring report for 2015/16 was produced in April 2016. In addition an action plan for the period 2016-20 was produced in April 2016 detailing actions the Board plans to take to tackle inequalities. Progress against the plan will be reported in 2018.

Outlook

- 167. Audit Scotland in its annual overview of the NHS in Scotland (October 2015) highlighted that pressures on NHS Boards have intensified over the past year as has the urgency for fundamental changes such as introducing new ways to deliver healthcare and developing a national approach to workforce planning. The strong focus on performance targets may not be sustainable when combined with the additional pressures of increasing demand and the overall NHS budget static or decreasing in real terms. The effort that NHS Boards are making to meet challenging financial and performance targets each year makes it more difficult for them to focus on the long-term planning required to achieve the Scottish Government's 2020 Vision.
- 168. In common with other NHS Boards, NHSGGC faces challenges in meeting its LDP and other targets. Whilst the Board has put in place a range of measures to improve performance, areas of significant challenge remain due increasing demand for improved services arising from changing demographics, lifestyles, health inequalities and increasing public expectations. The Board will need to continue to redesign services and improve quality, while also making services more efficient and sustainable. With the creation of the 6 IJBs it will be important that the Board work closely with partners to ensure performance targets are achieved.

Appendix IV, action plan 12

169. The Cabinet Secretary has recently announced that a review of national NHS targets will be undertaken. An expert group will be set up to lead the review, working with staff, stakeholders, social care and clinical bodies, and will examine a range of national targets to ensure they are continuing to deliver better outcomes for patients as well as making best use of NHS resources. It will also look at how target setting aligns with the Scottish Government's strategy for the future direction of NHS and social care services, in the context of the existing outcomes and indicators for health and social care integration.

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Financial statement risks		
Financial balance and sustainability NHSGGC faces challenges in dealing with a range of cost pressures during 2015/16. Risk There is a risk that the financial target is not achieved, leading to a year end deficit.	 We monitored updates to the financial plan and reviewed financial monitoring reports to the Board and the Acute Services Committee. We reviewed monthly financial returns to SGHSCD. We reviewed the controls relating to agency costs, nurse bank costs and sickness absence. We tested a sample of transactions taken from both pre- and post-year end to confirm expenditure and income had been accounted for in the correct financial year. Reviewed the impact of the QEUH on revenue expenditure in 2015/16. 	 The Board has a year end underspend of £0.2m against its core RRL. Non-core expenditure of £4m to match funding was assessed as non-compliant. This was subject to later amendment. We conclude on financial sustainability within this report. There are serious risks to the future sustainability of NHSGGC. Our cut-off testing did not identify any significant issues. Our review of agency, nurse bank and sickness identified a number of issues which were reported to management in May 2016.

Audit Risk	Assurance procedure	Results and conclusions
Staffing Agency costs and use of the nurse staff bank have increased by £4.4m when compared to the same time last year. By attempting to achieve certain performance targets, staff costs have increased particularly in the new QEUH site. Risk There is a risk that reliance on agency staff may impact on the Board's plans to achieve sustainable services and may not represent good value for money.	 Reviewed the controls relating to agency costs, nurse bank costs and sickness absence. Monitored financial and performance reports. Discussed the ongoing financial pressures surrounding the QEUH with key finance staff. Reviewed exit costs. Followed up on Audit Scotland's national report Scotland's Public Sector Workforce issued in November 2013. 	 Our review of agency, nurse bank and sickness identified a number of issues which were reported to management in May 2016. We followed up our 2014/15 management letter regarding settlement agreements and also reviewed the exit costs disclosed within the financial statements. No significant issues were identified. Our follow up on <i>Scotland's Public Sector Workforce</i> concluded that overall NHSGGC has a robust workforce plan and good governance arrangements in place. We identified several areas of good practice and we also identified some areas of potential improvement. Further details are included above.

Audit Risk	Assurance procedure	Results and conclusions
Non current assets As part of the move to the new South Glasgow hospitals, it was anticipated that the Yorkhill site would remain in use until September 2015. However, in order to manage the transfer of services, it continues to be in use. £75m of assets under construction should become operational in 2015/16. Risk There is a risk that the financial statements do not reflect the true asset values.	 Early discussion with management regarding accounting entries in this area. Reviewed year end property valuations and assessed adequacy of rolling programme of valuation. Reviewed accounting entries for non-current assets. We tested a sample of equipment assets transferred from closing sites to the new hospital. We tested a sample of equipment assets currently categorised as assets under construction. 	 We reviewed PPE as part of our interim work. While we concluded that no significant control weaknesses, we identified a number of areas for improvement which would strengthen the control environment. However our year end financial statements audit identified some areas of concern and these are referred to earlier in this report. We reviewed the year end property valuations and its application to the Board's property, plant and equipment. A number of matters arising were raised with officers in relation to surplus assets and assets held for sale. The rolling programme of revaluations was reviewed as part of our interim work and it was found that no formal plan is in place. We verified a number of assets transferred between old sites and the QEUH and did not identify any issues. Our testing of assets under construction did not identify any significant issues.

Audit Risk	Assurance procedure	Results and conclusions
Risk of management override of control ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. Risk There is a risk that management manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.	 We tested the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. We reviewed the accounting estimates applied for bias. We evaluated whether any significant transactions were outside the normal course of business. 	 We substantively tested a sample of journal entries at year end and agreed to source documentation. There were no issues to report. Reviewed accounting policies in the financial statements. Policies were deemed appropriate. Our testing focused on the regularity and cut-off assertions. There were no matters to report. The SGHSCD provided additional non-core funding (£4m). Our testing identified expenditure which did not comply with the definition of non-core. This was later amended which resulted in the issue of a very late revised allocation letter from SGHSCD. We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year.

Audit Risk

Assurance procedure

Risk of material misstatement due to fraud in revenue recognition

NHSGGC receives a significant amount of income in addition to Scottish Government funding, as set out in the Statement of Comprehensive Net Expenditure. Particular areas for concern include: FHS income, cash receipts, non-mainstream income generating activities.

ISA 240 presumes an inherent risk of fraud where income streams are significant.

Risk

The size and diversity of income streams flowing to the Board means that there is an inherent risk that income could be materially misstated.

- Analytical review of income streams to confirm completeness and identify any unusual transactions or variations in income.
- We evaluated the effectiveness of systems of internal control for income recognition and recording and undertook compliance testing of internal controls associated with income recognition and recording.
- We also undertook substantive testing of income transactions to confirm occurrence and accuracy of amounts in the financial statements.
- Monitoring of frauds and false exemptions reported and examination of the NHS National Services service auditor report covering Practitioner Services.
- Review of controls in place for the avoidance and potential recovery of overseas debt.

Results and conclusions

- Sample testing of unusual items did not identify any suspicious transactions and reasonable explanations were given for identified variances
- We assessed the controls in place for income recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified and we were able to conclude that controls were operating effectively.
- The monitoring and detection arrangements for fraud in relation to FHS were reviewed and were found to be appropriate and operating effectively.
- Our review of the controls in place relating to overseas debt concluded that adequate controls are in place.

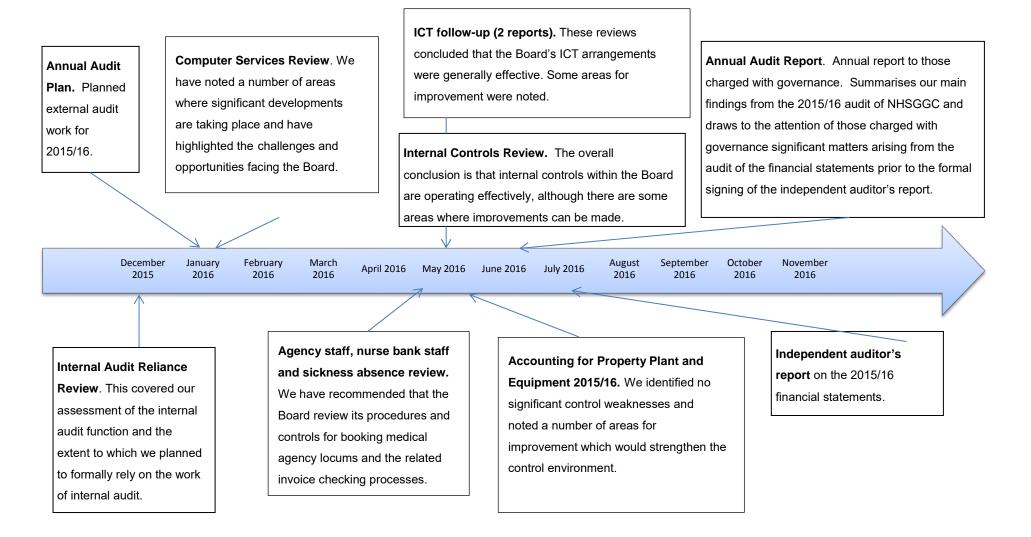
Audit Risk	Assurance procedure	Results and conclusions
Accruals In previous years there have been challenges obtaining adequate evidence to support year end accruals. A material financial misstatement may occur if accruals are raised inappropriately. Risk There is increased risk of understatement of accruals in 2015/16 due to the projected year end position.	 We had early discussions with officers in relation to the substance of transactions. We substantively tested a sample of accruals at year end. We tested a sample of post year end payments of goods and services and conducted an analytical review. 	 While our testing identified that the evidence provided to audit had improved, we again found a number of accruals which we considered to be invalid, either due to accruing for goods/services not received in the reporting year, or where the Board had accrued for unspent 2015/16 budget for a number of programmes. This resulted in a number of unadjusted errors which were agreed with management. We carried out a detailed variance analysis and used this to inform our sample selection for our year end sample testing. We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year. No matters were identified. We performed substantive testing on a sample of transactions from each material category of income and expenditure with reference to supporting documentation to confirm that they were accounted for in the correct accounting period. No matters were raised.

Audit Risk	Assurance procedure	Results and conclusions
Integrated Joint Boards and the Annual Report and Accounts for NHSGGC To date, three IJBs have commenced service delivery and as such will have material transactions in their accounts. As a result the NHSGGC Annual Report and Accounts will be required to include relevant financial and governance disclosures regarding the IJBs for 2015/16. Risk There is a risk that the draft accounts may be late, incorrectly stated or not appropriately disclosed.	 We shall seek assurances from the appointed external auditor of each IJB and liaise as appropriate. We shall review compliance with the guidance to be issued by the NHS Technical Accounting Group. Specific group accounts testing will assess the consolidation transactions. Meet with IJB Chief Officers and finance officers to assess progress across the year. Follow up the recommendations of our national report which apply to the 2015/16 financial statements 	 We have received assurances from the appointed auditors of the three IJBS who have commenced service delivery We have reviewed compliance with guidance and completed specific testing. No matters raised. Further detail is included above. As auditors were appointed for the 3 IJBs who became operational we will rely on the assurances provided by the auditors and therefore meetings with the chief officers were not necessary.

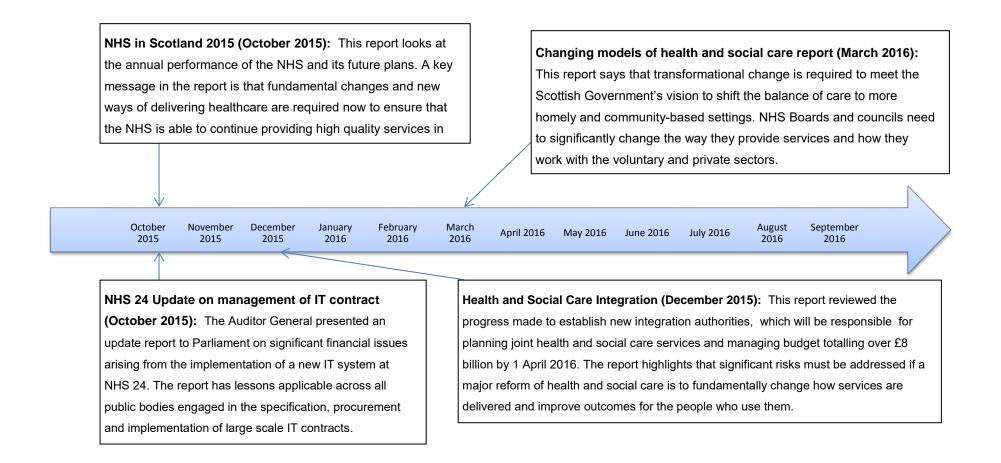
Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider resp	onsibility under the Code of Audit Practice	
 Information technology - cyber attacks Over the past 12 months several Scottish public organisations have been victims of cyber attacks and related activities. The threat from cyber attacks will continue to develop, potentially leading to reputational and financial harm. Risk There is a risk that Cyber attacks could disrupt the availability of critical patient systems as well as affect the Board's financial systems. 	 Reviewed arrangements to prevent and respond to cyber attacks. Finalised the review of aspects of ICT services. 	• The findings of our review of the arrangements relating to cyber attacks are included above. We found a number of areas for improvement including consideration of: the risk of cyber attack in the corporate risk register; the need for increased training; increased clarity over reporting arrangements and responsibilities; and more detailed assessment of the impact of any cyber attacks.

Audit Risk	Assurance procedure	Results and conclusions
Health and social care integration The integration of health and social care services in Scotland requires to be implemented fully by 1 April 2016. Although 5 out of 6 Integrated Joint Boards have been established and good progress is being made, significant aspects of health and social care integration still require to be progressed. Risk There is a risk that NHSGGC and its six partners may not be fully prepared for the integration of health and social care. Financial pressures and political tensions could also adversely impact on the effectiveness of the move to full and effective implementation of health and social care integration.	 Reviewed progress towards implementation by reviewing the reports presented to the Board. Reviewed internal audit report on health and social care integration. 	 We have reported above that there have been delays in the process to include IJB transactions in the NHSGGC accounts. Three IJBs were operational at 31 March 2016 and 3 came into operation on 01 April 2016. We have raised concerns that the process will need to be improved in 2016/17

Appendix II: Summary of NHSGGC local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
1.	12	 Quality review The annual report (performance and accountability reports) submitted for audit review did not reflect the revised guidance. Management review of the accounts was not completed in advance of providing the draft accounts to audit. <i>Risk.</i> The audit is delayed due to the absence of management review. <i>Recommendation.</i> The timetable for completion of the financial statements should include an allowance for a management quality review of the unaudited financial statements prior to submitting the accounts for audit. 	The delays in finalising the 2016/17 Financial Plan impacted on management time allocated to the quality review around the production of the draft financial statements. This will be resolved going forward.	Director of Finance 31 March 2017
2.	15, 31	Consolidation of IJB accounts Arrangements to receive the IJB accounts together with related working papers in accordance with the health Board timescale were not effective.	This has been the first year of both the production and consolidation of the IJB accounts. Whilst the consolidation was performed late in the process, there were no audit issues identified. Due to the different financial reporting cycles the issue of consolidating IJB accounts will be	Director of Finance 31 March 2017

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		 <i>Risk.</i> The accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late. The audit opinion is modified if the accounts are incomplete. <i>Recommendation.</i> Arrangements should be agreed well in advance with the six IJBs to ensure the flow of information will accommodate the early sign off of NHSGGC accounts. 	challenging in 2017. However, we will work with each IJB, and Audit Scotland, to establish a timetable and delivery process which fits with NHSGGC's audit process.	
3.	Table 1	Classification of expenditure The original classification of non-core expenditure was not compliant with SGHSCD guidance. <i>Risk.</i> There is a risk that core expenditure is overstated if non-compliant non core expenditure is transferred to core, resulting in a deficit against the RRL. <i>Recommendation.</i> Management should ensure that the classification of expenditure accords with SGHSCD guidance.	Agreed.	Director of Finance 31 March 2017

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
4	Table 1	 Additional support from SGHSCD An additional £4m non-core allocation was received in January 2016. This allocation may have contributed towards the incorrect classification of costs in order to achieve financial balance. <i>Risk.</i> A modified audit opinion on the financial statements if SGHSCD guidance is not followed or a financial target not met. <i>Recommendation.</i> The Board should discuss the timing and type of specific allocations with the SGHSCD to enable better financial planning. This would minimise financial and reputational risk (if a modified opinion) to the Board. 	The Board will discuss the timing and type of specific allocations with the SGHSCD. However, in-year allocations are a fundamental element of managing both the NHSGGC, and the wider Scottish, NHS financial performance. Following a review of the draft accounts, expenditure was reclassified correctly in the final accounts.	Director of Finance 31 March 2017
5	Table 1	Accounting for property, plant and equipment It was not readily apparent that officers had reviewed assets on the asset disposal listing to ensure full compliance with IFRS13 and the NHS Capital Accounting Manual. The matters raised in this report in relation to compliance with guidance together with the findings from our interim review reflect an area of weakness within the accounting	The completion of the QUEH and corresponding site closures, together with our wider estates rationalisation programme, have resulted in movement in our fixed asset portfolio and resultant accounting treatment. We believe we have complied with all relevant IFRSs and NHS accounting manuals. However, we will review how we document our treatment	Director of Finance 31 March 2017

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		and reporting systems for non-current assets. <i>Risk.</i> Non-current assets are not measured in accordance with guidance resulting in a material over or under statement in value. <i>Recommendation.</i> Management should review the processes and procedures for ensuring compliance with accounting guidance particularly in relation to capital accounting.	and valuation methodology.	
6	Table 1	 Trades payables – accruals A number of projects were inappropriately accrued at the year end and resulted in a number of unadjusted errors. <i>Risk.</i> There is a risk that if expenditure is not accounted for in the correct accounting period, there is a loss of transparency in financial reporting. This has implications for subsequent resource allocation. <i>Recommendation.</i> The Board should continue to review its processes for accruing expenditure to ensure that only valid obligations are accrued. 	Agreed. All adjustments were made in the final accounts.	Director of Finance Immediate

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
7	Table 1	 Goods received not yet invoiced (GRNIs). We identified a number of GRNIs which referred to goods received in prior years. Officers advised us of a system processing fault which recorded an incorrect year of processing. <i>Risk.</i> There is a risk that expenditure is not accounted for in the correct accounting period resulting in a loss of transparency in financial reporting. <i>Recommendation.</i> Management should review the underlying systems and processes to ensure that only valid obligations are accrued. 	Agreed. Whilst the amounts referred to were not material to the Accounts, this issue is under investigation and we remain confident of resolution in-year.	Director of Finance Immediate
8	45	Capital spend The original capital budget was underspent by 20%. <i>Risk.</i> Investment in the Board's infrastructure is not maintained resulting in the deterioration or non-replacement of assets. <i>Recommendation.</i> The processes which underpin the capital planning process should be reviewed to ensure the timely utilisation of capital funding.	Agreed. This has already been implemented in terms of approach, key personnel and the overall governance process.	Achieved

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
9	63	Efficiency savings In year overspends against budget were significant. While the Board met its savings target for 2015/16, £11.5 million (19%) was on a non-recurrent basis. <i>Risk.</i> There is a risk that non-recurring savings will put pressure on future years' budgets and that the Board may fail to meet its financial targets in future <i>Recommendation.</i> The Board together with its partners and the SGHSCD should devise a plan to ensure affordable service delivery and quality patient care. Savings plans should be finalised.	Agreed. This is issue has been reported to the Board and is covered in the 2016/17 Financial Plan.	Director of Finance 30 September
10	101	Cyber attacks Cyber is viewed as one of the top threats to the UK. The Board should review its approach to this threat and consider the matters raised from our review. <i>Risk.</i> The threat of a cyber attack continues to increase. There is a risk the Board is not able to respond effectively. <i>Recommendation.</i> Management should	We have recently revised our Information Management governance arrangements and have an action plan to take the subject forward. We have subjected ourselves to an internal and external threat assessment- on both of these counts, there were no major causes for concerns identified. All of these recommendations will now feature in the action plan.	Director of Finance (in SIRO role) 31 August 2016

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		 consider whether the threat of cyber attack should be included within the corporate risk register expanding information security awareness training measuring the extent to which staff implement the knowledge gained the classification of incidents whether there would be any benefit in assessing the impact and cost on the Board's activities. 		
11	159, 160	 Workforce planning Workforce planning is well established within the Board. We identified a number of areas of improvement which have been communicated to management. <i>Risk.</i> The Board does not plan effectively for future staffing requirements. <i>Recommendation.</i> Management should: monitor and support the development of HSCP plans 	The workforce agenda is extremely challenging for both NHSGGC and the wider NHS in Scotland. All of these recommendations are under consideration as part of our workforce planning process.	Director of HR 30 September 2016

No. AS ref.	Paragraph ref.	Issue/risk/recommendation	Management action/response	Responsible officer / Target date
		 extend succession planning across all grades of staff include plans for dealing with vacancies consider the application of scenario planning. 		
12	168	 Performance against targets The Board did not achieve all its performance targets in 2015/16. Risk. There is a risk that in a climate of reducing funding and competing priorities, performance targets are not achieved or maintained. Recommendation. The Board should monitor investment designed to improve performance and determine whether specific areas / specialties require more detailed scrutiny or additional actions to be taken. 	The Board report our performance targets to both our internal committees of governance and the Scottish Government. We are constantly striving to achieve all targets, including allocating funding and resources in the most optimal way. We have a number of reviews under way to examine the issue of target achievement, and these will likely result in a range of operational changes.	Chief Operating Officer 31 December 2016

NHS Greater Glasgow and Clyde 2016/17 Annual Audit Report

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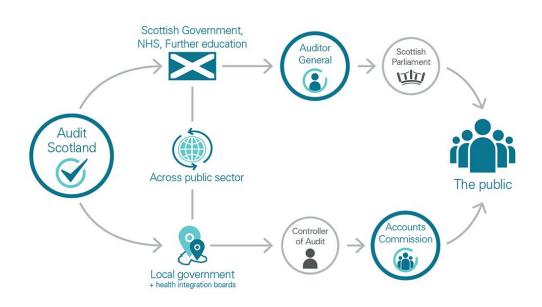
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Prepared for the board of NHS Greater Glasgow and Clyde and the Auditor General for Scotland 29 June 2017

Who we are

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

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



About us

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

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

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

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Key messages

2016/17 annual report and accounts

1 Our audit opinions were all unqualified. These covered the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

Financial management

- 2 NHS Greater Glasgow and Clyde has effective arrangements in place for managing its finances and the use of its resources. NHS Greater Glasgow and Clyde met all of its financial targets for 2016/17 and achieved an underspend of £1.154 million against its revenue resource limit (RRL).
- **3** NHS Greater Glasgow and Clyde achieved a favourable financial outturn position, however, the board was required to use £50m of non recurring funding to achieve this.
- 4 The six Integration Joint Boards (IJBs) in NHS Greater Glasgow and Clyde's area show a cumulative net operating surplus of £43.967 million since their inception. This balance is held as reserves in the IJBs' unaudited accounts. The Board's share of that cumulative position is £21.983 million. The board's accounts include relevant accounting entries but exclude the late adjustments outlined in appendix three.

Financial sustainability

- 5 We concluded that NHS Greater Glasgow and Clyde has adequate financial management arrangements in place. While the board achieved financial balance in 2016/17 it is facing an extremely challenging position in the future. In 2017/18 the Board started the financial year with unachieved savings brought forward of £29.6 million and the Board's financial plan projects a funding gap of £18.5 million (full year effect) in 2017/18. However, within the identified savings schemes, there is a significant element whose delivery is identified as high risk and many are due to crystallise in the later part of the year.
- 6 Efficiency savings will be crucial to maintaining financial balance over the medium term. Some of the efficiency savings required to deliver a balanced financial position in 2017/18 have yet to be identified.
- 7 NHS Greater Glasgow and Clyde is finding it difficult to recruit staff and relies on temporary or agency staff to fill gaps. The continued high costs of temporary staff are adding to the financial pressures facing the board.

Governance and transparency

8 NHS Greater Glasgow and Clyde has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Transparency could be improved by holding all committee meetings in public although recognising that sensitive or confidential items could be dealt with in a private session.

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Value for money

9 NHS Greater Glasgow and Clyde has an effective performance management framework in place. However, the board continues to struggle to meet key national performance targets.

Introduction

- 1. This report summarises the findings from our 2016/17 audit of Greater Glasgow and Clyde Health Board, commonly known as NHS Greater Glasgow and Clyde (NHSGGC).
- 2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit Committee. This report comprises:
 - an audit of the annual report and accounts
 - consideration of the wider dimensions set out in the <u>Code of Audit Practice</u> (2016) as illustrated in <u>Exhibit 1</u>.

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

- 3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of the board's main financial systems and governance arrangements
 - an audit of the board's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.
- 4. NHS Greater Glasgow and Clyde is responsible for preparing the annual report and accounts. It must also put arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

- 5. Our responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the <u>Code of Audit Practice</u> (2016), and guided by the auditing profession's ethical guidance.
- 6. As public sector auditors we give independent opinions on the annual report and accounts. We also review and report on the arrangements within NHS Greater Glasgow and Clyde to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.
- 7. Further details of the respective responsibilities of management and the auditor can be found in the <u>Code of Audit Practice (2016)</u>.
- 8. This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- **9.** Our annual audit report contains an action plan at <u>Appendix 1 (page 30)</u>. It sets out specific recommendations, responsible officers and dates for implementation.
- 10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- **11.** This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website <u>www.audit-scotland.gov.uk</u>.
- **12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1 Audit of 2016/17 annual report and accounts



Main judgements

Unqualified audit opinions on the annual report and accounts.

The working papers in support of the annual report and accounts were of a good standard.

The arrangements for agreeing the year end balances between the board and its six Integration Joint Board (IJB) partners require formal agreement, and to operate more effectively.

Unqualified audit opinions

- **13.** The annual report and accounts for the year ended 31 March 2017 were approved by the Board on 27 June 2017. We reported, within our independent auditor's report:
 - an unqualified opinion on the financial statements
 - an unqualified opinion on regularity of expenditure and income
 - unqualified opinions on the remuneration and staff report, performance report and governance statement.
- **14.** Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

- **15.** We received the unaudited financial statements template on 8 May 2017, in line with our agreed audit timetable. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.
- 16. The performance and accountability report elements of the financial statements were due to be received with the unaudited financial statements. While we received some elements of these reports on the 8 May substantial parts of the narrative were not provided until 1 June 2017. This resulted in audit work being re-prioritised. The performance and accountability draft reports provided still had a small number of omissions in the narrative.

The board's annual report and accounts are the principal means of accounting for the stewardship of its resources

Recommendation 1

The performance and accountability reports should be completed within a sufficient timeframe to ensure inclusion with the draft financial statements provided for audit.

17. In 2016/17, the board's group accounts included the financial results for the six Integration Joint Boards (IJB) within its area. The prior year group accounts contained the financial information for the three then operational Integration Joint Boards. NHSGGC staff liaised closely with the IJBs to agree and enhance arrangements to ensure the effective flow of financial information to accommodate the NHS sign off date. A statutory deadline of 30 April was set but during discussions between the board and the IJBs it was agreed that information was to be submitted by 26 May 2017. We were disappointed to note that we only received the final figures for the one outstanding Integration Joint Board on 12 June 2017.

Recommendation 2

Arrangements to receive the IJB accounts and related working papers should be agreed with the Chief Finance Officers of the IJB's to ensure information is provided to the health board within agreed timescales.

18. Also, the accounts reflect good practice as set out in the Audit Scotland publication <u>'Improving the Quality of the NHS Annual Report and Accounts'</u> (December 2014).

Risks of material misstatement

19. <u>Appendix 2 (page 33)</u> provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

Materiality

- **20.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.
- Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in <u>Exhibit</u>
 <u>2</u>. Specifically with regard to the annual report and accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.
- **22.** On receipt of the annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 2

Mate	riality	values	

Amount	Materiality level
act £33.1 million	Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.
£16.6 million	Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of overall materiality.
	Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 1% of planning materiality and has been capped at £100k.
	with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 1% of planning materiality and has been capped at

How we evaluate misstatements

- 23. There were a number of adjustments to the unaudited financial statements arising from our audit. Adjusting errors totalled £34 million however as these these mainly related to classification errors within the notes to the accounts the impact of these adjustments on outturn was a reduction in expenditure of £406k. A number of other mis-statements, including RTA income and late emerging adjustments to IJB accounts, as detailed in Exhibit 3 were identified which were not processed through the financial statements and these have been classified as unadjusted errors. These are detailed in Appendix 3 (page 36).
- 24. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the item(s) above as the amounts are not considered material in the context of the financial statements.

Significant findings

25. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in <u>Exhibit 3</u>. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in <u>Appendix 1 (page 30)</u> has been included.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution	
1. Performance Report	The performance report and governance statement were provided in 1 June 2017.	
From 2016/17 Audit Scotland is required to provide		
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Issue	Resolution	
an opinion on whether the performance report is prepared in accordance with the accounts direction. This report includes a performance report and an accountability report and these form an integral part of the accounts. This report, along with the governance statement were not provided with the draft financial statements on 8 May 2017.	<u>Action Plan (Appendix 1, point 1),</u>	
2. Integration Joint Boards	The Board provided the figures to audit on 12 June.	
Finance staff did not receive all of the unaudited IJB accounts by the required timescale with some IJB figures outstanding at 26 May 2017. At a late stage in the audit process a number of changes to earlier draft IJB accounts crystalised. These were not	It was established that the total error in relation to changes to the draft IJB accounts was £2.891 million and this has been treated as an unadjusted error in the accounts.	
material to the accounts of NHS Greater Glasgow and Clyde.	Action Plan (Appendix 1, point 2)	

3. Road Traffic Accident Debtor

Updated guidance was issued in 2016/17 regarding the Injury Cost Recovery scheme. The Cost Recovery Unit (CRU) within the Department for Work and Pensions pursues claims on the Health Board's behalf against insurance providers of drivers where an accident has resulted in treatment by the board. The board provides details of the treatment a patient receives and the Cost Recovery Unit calculate how much is due based on 'tariff rates'.

The guidance stipulates that an accrual of income should be disclosed within the NHS accounts from the point at which details are processed. A corresponding bad debt provision should be established to recognise the possibility of rebuttal of claim or non payment.

Currently the board do not accrue any income or have a bad debt provision. Recognition within the unaudited financial statements is only at the point of receipt of income.

Source: Audit Scotland

This issue was discussed with the board who advised that it has difficulty in assessing the amount that it should accrue as income as it does not maintain a database of claims. The CRU was contacted to establish if it could provide figures. The methodology applied by other health boards was reviewed and provided NHS Greater Glasgow and Clyde with sufficient detail to enable an estimate for the accrual of income to be determined. It was estimated that the total error was £3.5 million and this has been treated as an unadjusted error in the accounts.

Action Plan (Appendix 1, point 3),

Recommendation 3

The board should establish appropriate processes to maintain records of the RTA claims being pursued on their behalf. This will enable the quantification of accrued income and the corresponding bad debt provision in future.

Other findings

26. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

Part 2 Financial management



Main judgements

NHS Greater Glasgow and Clyde has effective financial management arrangements in place, including budgetary control, that help Board members scrutinise the board's finances.

NHS Greater Glasgow and Clyde had adequate systems of internal control in place during 2016/17 and our testing of the key controls confirmed that they operated effectively.

The savings required to achieve break even over the next three years have still to be identified. It will be challenging for the board to achieve future savings targets while continuing to maintain its levels of service.

Financial performance in 2016/17

27. NHS Greater Glasgow and Clyde, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in Exhibit 4, the board operated within all limits during 2016/17.

Exhibit 4

Performance against resource limits in 2016/17

Performance against resource limits set by SGHSCD	Resource Limit	Actual	Underspend
	£m	£m	£m
Core revenue resource limit	2,274.903	2,273.749	1.154
Non-core revenue resource limit	221.238	221.238	0
Total revenue resource limit	2,496.141	2,494.987	1.154
Core capital resource limit	65.667	65.658	0.009
Non-core capital resource limit	10.730	10.730	0
Total capital resource limit	76.397	76.388	0.009
Cash requirement	2,560.428	2,560.428	0

Source: NHS Greater Glasgow and Clyde Annual Accounts 2016/17

Underspend against Revenue Resource Limit (RRL)

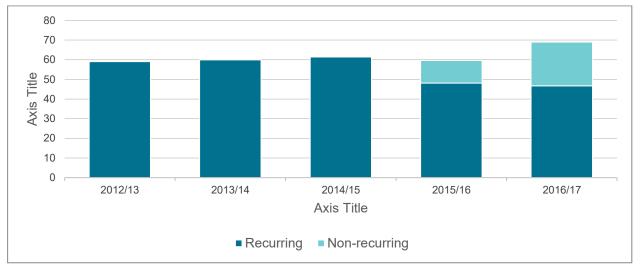
- 28. NHS Greater Glasgow and Clyde achieved an underspend of £1.154 million (0.05%) against its 2016/17 revenue resource limit of £2,496.141 million. This outturn is consistent with the 2016/17 Local Delivery Plan (LDP) which forecast a breakeven outturn. This was achieved through reliance on non recurring funding and reserves of £50 million which is not sustainable going forward.
- **29.** The board relied on a number of short term measures during 2016/17 to achieve financial balance including land sales and release of reserves and provisions. This approach is not sustainable and will make it difficult for the board to plan and invest in long term policy aims. In future, the board will find it extremely challenging to maintain financial balance and there is a real risk that it will not achieve its financial targets in 2017/18. The Board do recognise the challenge in this position and have begun 2017/18 with a new Chief Executive, and indicate that it is focussed on a more collegiate way of working and the need for transformational change.
- **30.** The National Resource Allocation Committee (NRAC) formula is used to calculate the share of funding each NHS board should receive based on population and demography. The Scottish Government made a commitment that all boards would be within one per cent of the target allocations by 2016/17.

Efficiency savings

- **31.** NHS Greater Glasgow and Clyde was required to make efficiency savings of £69 million in 2016/17 in order to break even. This proved to be challenging for the board and this target was only achieved through the utilisation of non recurring funding and utilisation of reserves.
- **32.** £46.7 million of savings were achieved on a recurring basis (67%) with the remainder on a non-recurring basis (33%). Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing (recurring) savings in future years.
- **33.** As illustrated in Exhibit 5, NHS Greater Glasgow and Clyde has been increasingly reliant on non-recurrent savings, particularly in the past two years. This situation is not sustainable and only provides the board breathing space in the shorter term.

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

Exhibit 5 Savings – recurring and non-recurring



Source: 2012/13 - 2016/17 Annual Audit Reports

Capital allocation

- **34.** NHS Greater Glasgow and Clyde received a total capital allocation of £76.398 million in 2016/17. This was made up of £65.7 million core allocation and £10.7 million non-core allocation. The core allocation was underspent by £9k.
- **35.** The capital allocation was spent on a number of building refurbishment programmes and capital investment continued on the programme to regenerate the Queen Elizabeth University Hospital site.

Budgetary processes

- **36.** We also reviewed NHS Greater Glasgow and Clyde's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular, timely and up to date financial information on the board's financial position.
- 37. We concluded that NHS Greater Glasgow and Clyde has appropriate budgetary monitoring and control arrangements that allow both members and officers to carry out scrutiny of the board's finances.

Internal controls

- **38.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS Greater Glasgow and Clyde has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- **39.** Our findings were included in an interim audit report presented to the Audit Committee on 6 June 2017. We concluded that the controls put in place by management are adequate and are operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Greater Glasgow and Clyde's ability to record, process, summarise and report financial and other relevant data which would result in a material misstatement in the financial statements.

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Prevention and detection of fraud and irregularity

- **40.** We have a responsibility for reviewing the board's arrangements for the prevention and detection of fraud. Our audit work, in this area, covered a number of areas such as whistleblowing and liaison with Counter Fraud Services.
- **41.** We concluded that NHS Greater Glasgow and Clyde is proactive in promoting fraud awareness and has adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

42. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.



- **43.** NFI activity is summarised in <u>Exhibit 6</u> and highlights that the board has made limited progress in investigating those matches issued to the board at the end of January 2017 that were recommended for investigation. The NFI matches completed by 31 March 2018 will be the basis for the national NFI report.
- **44.** NHS payroll data was not included in the initial 2016/17 NFI data matching process. Therefore, NHS payroll matches were not included in the matches released to participating bodies in January 2017 and were only released to relevant bodies in mid-May 2017.
- **45.** The results of NFI activity are reported regularly to the Audit and Risk Committee by the Head of Financial Governance. In addition, the completed NFI self appraisal checklist was presented to the Audit and Risk Committee in December 2016.
- **46.** The board is pro-active in reporting NFI activity to the Audit and Risk Committee. However, progress has been slow to date in investigating and closing recommended matches.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

- **47.** The board has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. Also, there are established procedures for preventing and detecting bribery and corruption including a fraud policy and whistleblowing policy.
- **48.** Based on our review of the evidence, we concluded that the board has adequate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

Part 3 Financial sustainability



Main judgements

NHS Greater Glasgow and Clyde has adequate financial planning arrangements in place based on the Local Delivery Plan.

NHS Greater Glasgow and Clyde failed to achieve its savings target on a recurring basis in 2016/17 and will face significant challenges in achieving its savings targets and maintaining financial balance in future.

Financial planning

- **49.** NHS Greater Glasgow and Clyde's Local Delivery Plan (LDP) for 2017/18 to 2021/22 sets out how the board's financial, workforce and services plans implement its strategic priorities. The LDP was submitted to the Scottish Government in line with the required timescales. It was presented to the Board meeting on 15 June 2017. The financial plan is a key component of the LDP and sets out how the board plans to achieve financial balance in 2017/18. In addition, the 2017/18 financial plan includes a high level financial outlook for the period 2017/18 to 2020/21 which takes account of anticipated funding and cost changes over this period.
- 50. The financial outlook forecasts an excess of cost growth over income in each year and also recognises the significant cost pressures facing the board. These include staff pay, prescribing, supplies and health and social care costs.
- **51.** At the same time there are significant funding pressures over the period of the plan. The basic funding uplift for 2017/18 is 1.5%, of which 1.1% will form a transfer to Social Care leaving a net uplift of 0.4%, while in each subsequent year the funding uplift is assumed to be a flat rate of 1.8% but part of this will relate to social care.
- 52. In future years the board is facing an extremely challenging position. Rising costs and relatively small movements in funding will make it difficult to achieve financial balance. The financial plan projects a potential funding gap of £122.4 million between out-turn and funding for the financial year 2017/18. Efficiency savings will play a crucial role in bridging this gap next year and in future years.

Medium to long term efficiency savings

53. NHS Greater Glasgow and Clyde is required to achieve efficiency savings amounting to 5.3% of baseline Revenue Resource Limit in 2017/18. This is equivalent to a saving of £122.4 million with all savings planned to be on a recurring basis. The board made budget allocations to IJBs which included a share of the efficiency savings of £23.7 million in January 2017. The Board is

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

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still in discussion with the IJBs on this allocated amount. This leaves £98.7m of target savings, split proportionately on base budgets to the Acute Division (£61.7m) and the Corporate Division (£37.0m)

54. This is a significant challenge for the board although it has now identified (on a full year effect);

Corporate Division Savings	£23m
Acute Division Savings	£21m
Organisation wide Initiatives	£12.5m
Productivity and Efficiency gains	£5m
Additional Income and Accounting	£19m

55. However, within the identified savings schemes, there is a significant element whose delivery is identified as high risk and many are due to crystallise in the later part of the year.

Recommendation 4

The board should ensure that savings plans are developed to ensure delivery of the required £122.4 million of savings in 2017/18, including the unidentified £18.5 million, will be achieved.

- 56. The financial plan forecasts a requirement to make savings of £122.4 million (as noted above), £54 million and £56 million respectively over the next three financial years to break even as illustrated in Exhibit 7. This is based on a number of assumptions, the key ones include:
 - No funding is assumed for any further service investments within those services under the direct control of NHSGGC;
 - No impact for developments in Regional Planning has been included;
 - No impact related to legislation for the application of professional workforce tools has been included;
 - The financial impact of the implementation of the new GP contract will be met through the additional primary care funding recently announced by the Scottish Government.

Exhibit 7

Savings forecast 2017/18 to 2021/22

	2017/18 £ million	2018/19 £ million	2019/20 £ million	2020/21 £ million	2021/22 £ million
Recurring	122.4	54	56	57	61
Non-recurring					
Total	122.4	54	56	57	61
% of RRL	5.3	2.3	2.4	unknown	unknown

Source: NHS Greater Glasgow and Clyde Five Year Financial Plan

Workforce planning

- **57.** In February 2017, the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.
- 58. NHS Greater Glasgow and Clyde is facing a number of workforce challenges including the age profile of the workforce and recruitment in some specialities. As at 31 March 2016, 35% of the workforce is aged 50 or over. Within support and administrative services staff aged over 55 represent 35% and 29% of the workforce respectively. Within Nursing and Midwifery 18% of staff are currently aged over 55, a 4% increase on the 2011 figure. The board's 2016/17 Workforce Plan recognises the risks and implications of an ageing workforce and sets out the board's plans for the future model of its workforce.
- 59. The workforce plan also recognises challenges with recruiting in some specialities notably, radiology, urology, older people, ophthalmology, psychiatry and some oncology services.
- 60. As a result of recruitment and retention problems and pressures to meet waiting time targets, the amount spent on temporary staff has increased over the last five years as illustrated in <u>Exhibit 8</u>. Temporary staff provide flexibility in the short term by providing cover for sickness absence and vacancies but that comes at a cost. Spending on temporary staff has increased from 1% in 2013/14 to 1.9% in 2016/17 of total staff costs.

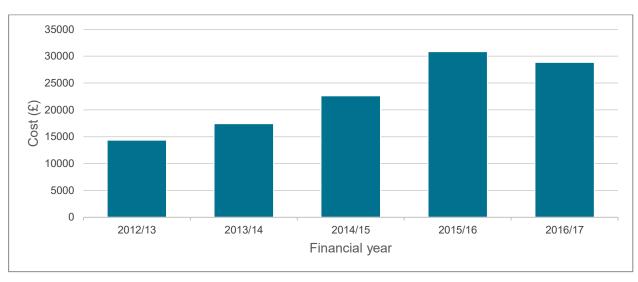


Exhibit 8 Temporary staff costs

Source: Annual Accounts 2012/13 - 2015/16

61. The increasing use of temporary staff, that can cost significantly more than permanent staff, is putting pressure on the board's budget and does not represent value for money. NHS Greater Glasgow and Clyde established an

Agency Locum Steering Group. The group has overseen the establishment from February 2017 of a managed contract which will oversee the appointment of locums.

62. NHS Greater Glasgow and Clyde like most NHS boards is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. The sickness absence rate from 1 April 2016 to 31 March 2017 was 5.8% compared to 6.1% for the comparable period last year.

Part 4 Governance and transparency



Main judgements

NHS Greater Glasgow and Clyde has appropriate governance arrangements in place that support scrutiny of decisions made by the board.

NHS Greater Glasgow and Clyde is open and transparent in the way it conducts its business but with some scope for improvement.

Governance arrangements

- **63.** Our review of the board's governance and accountability arrangements considered areas that were based on the recommendations in the Auditor General's 2010 report on the "Role of Boards", tailored to include all public sector bodies.
- **64.** As part of this work we reviewed a range of governance documents, minutes and agenda papers. We also regularly attended Audit and Risk Committees, Acute Services Committees and Finance and Planning Committees during the year to see how they perform.
- **65.** The Board and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of affairs of NHS Greater Glasgow and Clyde and for monitoring the adequacy of these arrangements.
- **66.** There have been changes to the Board's governance structure with new committees established during 2016/17 to enhance scrutiny and accountability in the key areas of Finance and Planning, Clinical Governance and Care and Public Health.
- 67. We are satisfied that:
 - Standing Orders, including committee remits and SFIs are regularly updated
 - there is evidence of scrutiny and challenge by members
 - service performance and programme management are subject to scrutiny and review
 - members have a structured board seminar programme covering key areas of interest and importance.
- **68.** Overall, we concluded that the board has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.

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

Internal audit

- **69.** Internal audit provides the board and Accountable Officer with independent assurance on NHS Greater Glasgow and Clyde's overall risk management, internal control and corporate governance processes such as the roles and responsibilities of committees.
- **70.** The internal audit function is carried out by PricewaterhouseCoopers. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
- 71. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in the following areas: accounts payable, general ledger and payroll. Also, we considered internal audit report findings as part of our wider dimension work.

ICT risks

- **72.** This year we have taken the opportunity to consolidate our efforts in this area, reviewing the board's progress towards mitigating previously identified ICT risks. We have concluded that the progress made has addressed all previously reported ICT risks, with the following two exceptions:
 - Local implementation of the national electronic Employee Support System (eESS) continues to be delayed. Robust information flows between business units and the user provisioning team will not be fully developed until this implementation is complete. This continues to present risk that the staff may have inappropriate access to the board's information assets.
 - Business Continuity Plans for the Financial Services and Payroll functions have not been developed nor formally documented. This continues to present the risk these services may be an unstructured approach to the delivery of these services in the event of a system failure.
- **73.** On 12 May 2017 a number of health bodies in Scotland, including NHS Greater Glasgow and Clyde were affected by a global ransomware cyber attack. Within NHS Greater Glasgow and Clyde a total of 11 GP practices were identified as having been impacted. All affected GP practices were directly connected via the Scottish Wide Area Network (SWAN). There was no impact to operational services within the board as a result.

Risk management

- **74.** We reviewed the risk management arrangements within the board to assess their effectiveness and appropriateness. This included consideration of the risk management strategy which sets out the board's vision for risk management with a supporting framework and a review of the board's corporate risk register.
- **75.** During the year the Audit and Risk Committee have been reviewing risk management arrangements within the board and work is continuing on enhancing the risk management processes with the Board.

Transparency

76. Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

- **77.** There is evidence from a number of sources which demonstrate the board's commitment to transparency including the annual accountability review (where members of the public can attend). Also, Board meetings are open to the public.
- **78.** While committee meetings are held in private, the minutes of these meetings are publicly available on the board's website. We would however encourage the good practice of holding committee meetings in public, where possible, with sensitive or confidential items being held in private session. We also noted that towards the end of 2016/17 a number of financial updates were provided to committees verbally as opposed to a formal report being provided.
- **79.** Overall, we concluded that the board conducts its business in an open and transparent manner but that there are some areas where the board could improve current arrangements (i.e. holding committee meetings in public).

Health and social care

- **80.** Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. This brings together NHS and local council care services under one partnership arrangement for each area.
- **81.** Integration will mean a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends, doing the things that give life meaning and value.
- 82. There are six IJBs within NHSGGC's area. Three of the six became operational in 2015/16: West Dunbartonshire, East Dunbartonshire and East Renfrewshire. The remaining three, Glasgow City, Renfrewshire and Inverclyde became fully operational on 1 April 2016.
- **83.** Difficulties have been encountered in agreeing the 2016/17 budget for each of the six Integrated Joint Boards. Currently no agreement has been reached over the 2017/18 financial settlement. This relates to differing interpretations of how funding should be allocated in accordance with the Scottish Government correspondence. The board and the IJBs have also yet to agree the efficiency saving requirements.

Recommendation 5

The board should engage with each IntegrationJoint Board to ensure the development of robust governance and financial arrangements, including prompt agreement of efficiency savings.

84. Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is not due until spring 2018. We plan to use this to assess progress once the work on this report has been completed.

2020 Vision

85. In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Wellbeing and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 vision. The board's clinical strategy, which was agreed in 2015, outlines how the 2020 vision will be taken forward by NHS Greater Glasgow and Clyde.

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Equalities

- 86. The Equality Act 2010 introduced a new public sector 'general duty' that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
- **87.** We reviewed the current equalities report and concluded the board has met its statutory duty to:
 - publish information on progress made in mainstreaming equality within the board
 - report on progress made towards achieving equality outcomes published in 2013
 - publish annual employee information and details of the progress made in gathering and using information to better meet the duty
 - publish updated gender pay-gap information.
- **88.** We concluded, on the basis of evidence reviewed, that the board is proactive in ensuring that equality is mainstreamed.

Part 5 Value for money



Main judgements

NHS Greater Glasgow and Clyde has an effective performance management framework in place. This helps support the board in its drive to achieve value for money and continually improve how it delivers services.

NHS Greater Glasgow and Clyde's performance against LDP standards has been deteriorating.

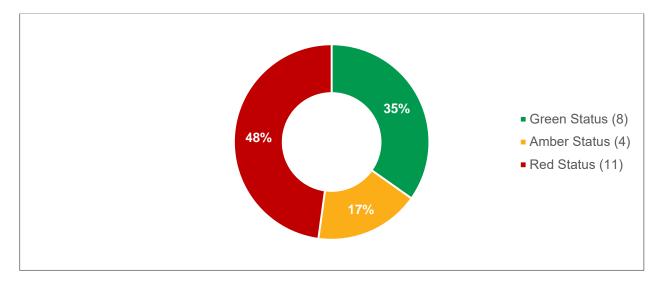
Performance management

- 89. The Scottish Government monitors how NHS Greater Glasgow and Clyde performs against targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the board's Local Delivery Plan (LDP). Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks otherwise known as the Treatment Time Guarantee. As noted previously the 2017/18 LDP will be agreed by the Board in June 2017.
- **90.** The board is kept well informed of performance across all areas. The board receive Integrated Performance Reports in the form of a balanced scorecard on a regular basis detailing performance against Board wide LDP Standards and other local standard. The detailed review and scrutiny of performance within the acute sector has been delegated to the Acute Services Committee.
- 91. Each meeting of the Board and Acute Services Committee receives an acute integrated performance report. Performance is reported using 35 key indicators (including the 19 LDP Standards for 2016/17). Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance. We regularly attend committee and review papers received by members to find out how well the committee is scrutinising performance.
- **92.** Committee members receive supplementary reports on specific aspects of performance namely waiting times and the financial position. These enable members to focus on key risks relating to access to treatments and financial sustainability.
- **93.** We concluded that the NHS Greater Glasgow and Clyde has an effective performance management framework in place.

Overview of service performance

94. The board's performance report presented to the April 2017 Acute Services Committee detailed performance against 35 separate measures. These include Local Delivery Plan Standards as well as other local standards. The board's performance as reported in the 2016/17 annual accounts, and based Value for money is concerned with using resources effectively and continually improving services. on the most up-to-date position at the end of March 2017 is summarised in Exhibit 9 below).

Exhibit 9 Overall performance



Source: NHS Greater Glasgow and Clyde

- **95.** Of 35 performance measures reported, 23 were given a performance rating: 8 were categorised as green, 4 amber and 11 red, where:
 - green means targets being met or exceeded
 - amber means performance is within 5% of target
 - red means targets outwith acceptable standards (more than 5% below target).

96. Overall, NHS Greater Glasgow and Clyde performance has been deteriorating in a number of key targets. However, there are a number of targets that are outwith acceptable standards and more details on these are provided in <u>Exhibit</u> 10.

Exhibit 10

Performance against key LDP standards (illustrative example)

Target/standard		Performance at March 2017 ¹	Action being taken by Board
Urgent referral for suspicion of cancer (62 days target)	95%	83.7%	Performance is below the target in a number of cancer types. Actions being taken include increasing capacity through additional clinics and reviews of patient pathways and consideration of redesign options.

Target/standard		Performance at March 2017 ¹	Action being taken by Board
% of new outpatients waiting less than 12 weeks from referral to a first outpatient appointment	99.9%	83.7%	Work is underway to improve efficiency. This includes reducing the length of stay; improving days case rates and theatre utilisation. A programme of outpatient redesign is planned to modernise outpatient services.
Sickness absence rate	4%	5 .49%	A work programme to improve performance management is underway. Absence monitoring tools have been developed which details staff absences and recorded Human Resources interventions.
Accident and Emergency 4 hour wait time target	95%	90.7%	From the Board's review of unscheduled care a number of projects have been identified to deliver improvements and new ways of working.

Note: 1. Figures still to be validated by NHS Information Services Division.

Source: NHS Greater Glasgow and Clyde

- **97.** Based on available evidence, we concluded that the board's plans for addressing those LDP standards assessed as 'red' are reasonable.
- **98.** NHS Greater Glasgow and Clyde have noted deteriorating performance in a number of key performance targets over the past year. The board is focussed on achieving financial stability and attainment of financial targets and this is having an impact on the performance against performance targets.

Recommendation 6

The board should monitor its investments designed to improve performance and determine whether specific areas/specialiaties require more detailed scrutiny or additional actions to be taken.

National performance audit reports

- **99.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are outlined in <u>Appendix 4</u> accompanying this report.
- **100.** We have previously recommended that a formal process be introduced to ensure that Audit Scotland national reports are considered by officers. The

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approach to identifying published reports, determining their consideration or review by committee or management and the subsequent follow up of any actions arising from these reports still requires to be formalised.

101. Going forward, we again recommend that officers introduce a more formal process to ensure Audit Scotland national reports are considered by officers and the actions taken are reported back the Audit and Risk Committee.

Recommendation 7

The board should establish a formal process for the consideration and follow up of Audit Scotland national reports by appropriate officers and that actions taken are reported back to the Audit and Risk Committee.

Follow up Review of Agency Staff, Bank Staff and Sickness Absence

102. In our local audit report we followed up the recommendations contained in the local audit report 'the Review of Agency Staff, Bank Staff and Sickness Absence' in May 2017. We noted work undertaken by the board in improving the governance arrangements and establishing tighter financial reporting controls around locum appointments, through the use of a managed service contract. New sickness absence reports have been developed through a traffic light system approach. Sickness absence trends are also tracked over a 3 year period. Arrangements continue to evolve in this area and over the coming years changes will continue particularly through the implementation of a new HR system.

Appendix 1 Action plan 2016/17

2016/17 recommendations for improvement

Page no.	lssue/risk	Recommendation	Agreed management action/timing
9	 1. Performance and Accountability Report The performance and accountability reports were not completed and reviewed within a sufficient timeframe to ensure inclusion with the draft financial statements passed to audit. Risk The audit is delayed due to the absence of key sections of the annual accounts. 	The timetable for the completion of the financial statements should include an allowance for a management quality review of the performance and accountability reports prior to submitting a draft version to audit.	Agreed Management Action: The reports contained a raft of new requirements and information this year. This required input from a number of different people across the Board. A more defined project plan will be drafted for 2018. Responsible Officer: Director of Finance Agreed date: 30 April 2018
9	2. Consolidation of IJB Accounts The IJB accounts and papers were not provided within agreed timescales. Risk The accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late. The audit opinion is modified if the accounts are incomplete.	Arrangements should be agreed well in advance with the six IJBs to ensure the flow of information will facilitate the timely certification of NHSGGC accounts.	Agreed Management Action: The outstanding issue related to one IJB. We will endeavour to work more closely with the IJB CFOs. Responsible Officer: Assistant Director of Finance – Corporate and IJBs. Agreed date: 31 March 2018
12	 3. Road Traffic Accident Debtor The board currently do not accrue any income or have a bad debt provision within the financial statements in relation to the Injury Recovery Scheme. Risk The debtor position within the financial statements is 	The board should establish appropriate processes to maintain records of the claims being pursued on their behalf. This will enable the quantification of accrued income and the corresponding bad debt provision in future.	Agreed Management Action: The Board has been following the last formal, issued guidance on this subject. However, we accept the audit point. Responsible Officer: Director of Finance Agreed date: 30 April 2018

understated due to the omission of the accrued income in relation to the Injury Recovery Scheme.

	Recovery Scheme.		
17	4. Savings targets	The board should ensure that	Agreed Management Action:
	Savings plans do not currently identify how the savings requirement of £122.4 million will be achieved.	savings plans are developed to ensure delivery of the required £122.4 million of savings required in 2017/18, including the unidentified £18.5 million,	The Board is undertaking a range of actions around the savings position, as outlined in the 2017/18 Financial Plan.
	Risk	will be achieved.	Responsible Officer: Director of Finance
	There is a risk that savings required to fund the budget gap are not realised.		Agreed date: 30 April 2018
23	5. Integration Joint Board's arrangements	The board should engage with each Integration Joint Board to	Agreed Management Action:
	The board have not agreed financial settlements with each of the Integration Joint Board for 2017/18. Risk There is a risk that Integration Joint Board arrangements are	ensure the development of robust governance and financial arrangements, including the agreement of the financial settlement for 2017/18 and related efficiency savings.	Work has continued on closing the financial gap for 2017/18 and assessing NHSGGC's ability to make financial commitments. As part of this, NHSGGC remains fully committed to negotiating a settlement to enable 2017/18 budgets to be finalised.
	not fully effective due to difficulties in agreeing arrangements around their governance and financial arrangements.		Discussions will be ongoing over the next month and a formal update will be given to the 15 August 2017 NHS Board Meeting.
			Responsible Officer: Director of Finance
			Agreed date: 15 August 2017
27	6. Performance targets	The board should monitor its	Agreed Management Action:
	The board did not achieve all its performance targets in 2016/17. Risk There is a risk that in a climate	investments designed to improve performance and determine whether specific areas/specialities require more detailed scrutiny or additional actions to be taken.	There is currently a significant amount of work underway examining a range of different aspects of our Acute activity, including capacity, patient flows, theatres etc.
	of challenging funding settlements and competing priorities, performance targets are not achieved or maintained.		This also takes account of the IJBs commissioning intentions, and included measuring the value of investments.
			Responsible Officer: Director of Finance/Chief Operating Officer
			Agreed date: Immediate
28	7. National Reports	The board should establish a	Agreed Management Action:
	The board do not have a formal process in place for	consideration and follow up of	Agreed
			Responsible Officer: Finance

reviewing published reports and determining the appropriate review and follow up action to be taken.	by appropriate officers and that actions taken are reported back to the Audit and Risk Committee.	Governance Manager Agreed date: Immediate
Risk		
There is a risk reports are not considered by appropriate committees or officers or actions arising are not followed up.		

Appendix 2

Significant audit risks identified during planning

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

Audit risk

Assurance procedure Results and conclusions

Risks of material misstatement in the financial statements

1	Risk of management override of controls	Detailed testing of journal entries.	We undertook detailed testing of journal entries, accruals and
	ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes	Review of accounting estimates.	prepayments. We also reviewed accounting estimates and transactions for appropriateness.
		Focused testing of accruals and prepayments.	We did not identify any incidents of management override of
	consideration of the risk of management override of controls in order to change the	Evaluation of significant transactions that are outside the normal course of business.	controls.
	position disclosed in the financial statements.	Substantive testing of transactions after the year end to confirm expenditure and income have been accounted for in the correct financial year.	
2	Risk of fraud over income/expenditure	Analytical procedures on income/expenditure streams.	We undertook detailed testing of income and expenditure streams.
	NHS Greater Glasgow and Clyde receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.	Detailed testing of revenue/ expenditure transactions focusing on the areas of greatest risk. Audit work on the National Fraud Initiative matches. Obtain assurances from the	No significant issues were identified from our testing.
			We concluded that the board has started to investigate NFI matches.
			No frauds were identified.
	The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. NHS Greater Glasgow and Clyde incurs significant expenditure on a range of activities which will require audit coverage.	NHS Scotland Counter Fraud Service.	
3	Estimation and judgements	Completion of 'review of the	We reviewed the professional valuer in accordance with ISA 500
	There is a significant degree of subjectivity in the measurement	work of an expert' for the professional valuer.	and undertook detailed testing of
	and valuation of the material	Review of information provided	key valuations within the accounts.

A	udit risk	Assurance procedure	Results and conclusions
	assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	by the Central Legal Office. Focused substantive testing of provisions.	We reviewed the CLO information and performed testing of provisions. No material misstatements were
4	Non Current Assets	Follow up work on the	We followed up the Accounting
	During the course of the 2015/16 audit a number of issues were raised in both the 'Accounting for Property, Plant and Equipment' report and the Annual Audit Report. Issues raised included:	Accounting for Property Plant and Equipment report. Substantive testing of a sample of assets held for sale to confirm compliance with IFRS 13 and the Capital Accounting Manual regarding	for Property Plant and Equipment report. We substantively tested assets held for sale and confirmed compliance with IFRS 13 and Capital Accounting Manual regarding valuations.
	• The valuation of assets held for sale and	valuations. Review valuation programme.	A review of the valuation programme was completed.
	compliance with IFRS 13 and the Capital Accounting Manual.Fixed asset register not	Substantive testing on non current assets, including transfers, disposals and asset lives.	We substantively tested asset additions, transfers, disposals and asset lives to confirm appropriate and timely recording of these
	always updated to contain information held on other systems.		transactions. No material misstatements were identified.
	Lapses in the documentation, authorisation and communication processes for the disposal of assets.		
5	Consolidation of IJB Accounts In 2016/17, the Board's six	Early discussion with officers regarding the timetable and delivery process.	We had early discussions with officers regarding the timetable and delivery process for the year
	Integration Joint Board's six Integrational and the health board's accounts and annual report will need to include the relevant financial and governance disclosures for the IJB's.	Seek assurances from the appointed external auditor at each IJB and liaise as appropriate.	end. We obtained assurances from appointed external auditors at each of the IJBs.
		Assurance obtained by Board's Director of Finance for the group governance	We completed specific group account testing on the consolidation transactions. The
	In the prior year the arrangements to receive the IJB accounts and related working papers were not fully effective. The Board need to agree a timetable and approach to obtaining the IJB figures for consolidation and assurances required for the group governance disclosures.	disclosure. Specific group account testing of the consolidation transactions.	results of the IJBs were appropriately brought in to the board's accounts.
	There is a risk that draft accounts may be late, incorrectly stated or not appropriately disclosed.		
6	Accruals In previous years there has been challenges obtaining	Early discussion with officers in relation to the substance of transactions.	We altered our audit approach during the year and decided that substantively testing accruals was

Audit risk	Assurance procedure	Results and conclusions
adequate evidence to support	Substantively test a sample of	more beneficial than conducting

adequate evidence to support year end accruals.

A material financial misstatement may occur if accruals are raised inappropriately.

There is increased risk of understatement of accruals in 2016/17 due to the projected year end position. Substantively test a sample of accruals at the year end.

Sample post year end payments of goods and services.

Analytical review.

more beneficial than conducting analytical review procedures for the purposes of the financial statements audit work.

We substantively tested year end accruals and post year end payments of goods and services. No material misstatements were identified.

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

7	Financial Balance/ Savings Targets NHS Greater Glasgow and Clyde approved its 2016/17 Financial Plan in June 2016. The plan identified recurring in- year savings of £69 million to break even and current forecasts are for savings of £50-55m to be achieved. There is a risk that the savings to address the budget gap may not be realised.	Monitor updates to the Financial Plan and the ongoing financial position.	We attended the Finance and Planning Committee and Acute Services Committee on a regular
		Review financial monitoring reports to the board and Acute Services Committee.	basis throughout the year. We reviewed the monthly financial returns to SGHSCD.
		Review monthly financial returns to SGHSCD.	We regularly reviewed committee paper minutes throughout the
		Follow up on 'Review of Agency Staff, Bank Staff and Sickness Absence' report 2015/16.	year. We followed up the Review of Agency Staff, Bank Staff and Sickness Absence' and noted a
		Test a sample of transactions substantively before and after the year end to confirm expenditure and income has been accounted for in the correct financial year.	number of improvements. We undertook year end transactional testing to confirm that expenditure and income were accounted for in the correct financial year.
8	Chief Executive Position The Board's Chief executive is leaving the organisation in March 2017 and there may be a substantial gap between the existing CE leaving and the new CE taking up post. There is a risk that there will be no permanent Accountable Officer in post during the important year-end period and the finalisation of the statutory accounts.	Monitor the Board's arrangements to ensure that appropriate cover is put in place during any emerging transitional period.	A new Chief Executive was appointed with effective from 1 April 2017.

Appendix 3 Summary of unadjusted errors

We report all uncorrected misstatements that are individually greater than our reporting threshold of £100k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in <u>Exhibit 2</u> (page 10). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive inco expenditure st		Bala	ance sheet
		Dr £000	Cr £000	Dr £000	Cr £000
1	Accruals			125	
	Expenditure		125		
2	Accruals			580	
	FHS Expenditure (GOS, GDS and GPS)		580		
3	RTA debtor – accrued income			3,500	
	Income		3,500		
4	Investments and associates in joint ventures			2,892	
	SOCNE		2,892		
Net i	mpact		7,097	7,097	

Entry 3 relates to the the RTA debtor which was not included within the accounts.

Entry 4 relates to the late adjustments to IJB accounts

Appendix 4 Summary of national performance reports 2016/17



Apr		
Мау	Common Agricultural Policy Futures programme: an update	
Jun	South Ayrshire Council: Best Value audit report	The National Fraud Initiative in Scotland
Jul	Audit of higher education in Scottish universities	Supporting Scotland's economic growth
Aug	Maintaining Scotland's roads: a follow-up report a progress updat	
Sept	Social work in Scotland	Scotland's new financial powers
Oct	Angus Council: Best Value audit report	NHS in Scotland 2016
Nov	How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16
Dec	Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report
Jan		
Feb	Scotland's NHS workforce	
Mar	Local government in Scotland: Performance and challenges 2017	Managing new financial powers: an update

NHS relevant reports

The National Fraud Initiative in Scotland - June 2016

NHS in Scotland 2016 - October 2016

Social work in Scotland – September 2016

<u>Scotland's NHS workforce</u> – February 2017

NHS Greater Glasgow and Clyde

2016/17 Annual Audit Report

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NHS Greater Glasgow and Clyde 2017/18 Annual Audit Report

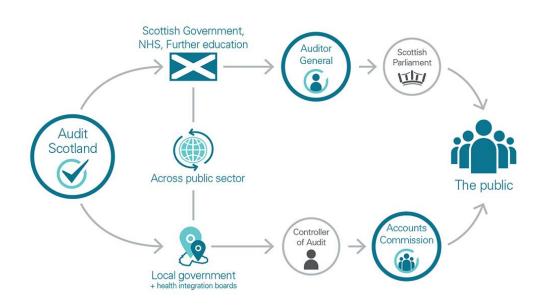


Prepared for the Board of NHS Greater Glasgow and Clyde and the Auditor General for Scotland 28 June 2018

Who we are

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

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



About us

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

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

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

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Key messages

2017/18 annual report and accounts

1 In our opinion: NHS Greater Glasgow and Clyde's financial statements give a true and fair view and were properly prepared; expenditure and income was in accordance with applicable enactments and guidance; and the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

Financial management

2 NHS Greater Glasgow and Clyde has effective arrangements in place for managing its finances and the use of resources. NHS Greater Glasgow and Clyde met all its financial targets for 2017/18 and achieved an underspend of £0.266 million against its revenue resource limit.

Financial sustainability

- 3 We concluded that NHS Greater Glasgow and Clyde has adequate financial management arrangements in place. The Board achieved financial balance in 2017/18 although the delivery of this position was achieved by a number of in-year arrangements that included a late allocation of funding from Scottish Government, a transfer of allocated funding from capital to revenue and the use of non-recurring sources. The board therefore continues to face an extremely challenging position in future and opened the 2018/19 financial year with savings requirements brought forward of £67.8 million. The 2018/19 financial plan projects a funding gap of between £25 million and £30 million.
- 4 Efficiency savings will be crucial to maintaining financial balance over the medium term. The Board's substantial reliance on non-recurring sources in 2017/18 (£70.1 million) is noted above and it has already identified that it will need to rely on a similar level of non-recurring sources to deliver a balanced financial position in 2018/19.

Governance and transparency

5 NHS Greater Glasgow and Clyde has appropriate governance arrangements in place that support scrutiny of decisions made by the board. Transparency could be improved by holding all committee meetings in public although recognising that sensitive or confidential items could be dealt with in a private session.

Value for money

6 NHS Greater Glasgow and Clyde has an effective performance management framework in place which supports continuous improvement. However, the board continues to struggle to meet key national performance targets. A51483446

Introduction

1. This report summarises the findings from our 2017/18 audit of Greater Glasgow Health Board, commonly known as NHS Greater Glasgow and Clyde (or NHSGGC).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 12/12/17 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the board's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit set out in the <u>Code of Audit Practice 2016</u> as illustrated in <u>Exhibit 1</u>.



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2017/18 have been:

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

4. NHS Greater Glasgow and Clyde has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report

and accounts that are in accordance with the accounts direction from Scottish Ministers. The board's annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Directors' Report, Governance Statement and Remuneration and Staff Report)
- Financial statements and supporting notes.

5. The board is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor is established by the Public Finance and Accountability (Scotland) Act 2000 and <u>the Code of Audit Practice (2016)</u>, and guided by the auditing profession's ethical guidance.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the board's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the <u>Code of Audit Practice 2016</u>.

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

9. Our annual audit report contains an agreed action plan at <u>Appendix 1</u> setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

10. 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 2017/18 audit fee of £392k, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to NHS Greater Glasgow and Clyde by providing insight and foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website <u>www.audit-scotland.gov.uk</u> in due course.

13. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1 Audit of 2017/18 annual report and accounts



Main judgements

NHS Greater Glasgow and Clyde's financial statements give a true and fair view and were properly prepared.

Expenditure and income were 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 accounts direction.

Audit opinions on the annual report and accounts

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

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

Submission of annual report and accounts for audit

15. We received the unaudited annual report and accounts on 14 May 2018, in line with our agreed audit timetable. The board's group accounts included the financial results of the Endowment Fund and Integration Joint Boards (IJBs) within its area.

16. The working papers provided were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

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

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.

Materiality

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

19. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in <u>Exhibit 2</u>. With regards to the annual report and accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

20. On receipt of the annual report and accounts we reviewed our planning materiality calculations and concluded that both overall and performance materiality would increase marginally. Overall materiality was calculated as £32.17 million at the planning stage but increased to £32.8m on receipt of the accounts. Similarly, performance materiality was calculated as £16.1 million at the planning stage, increasing to £16.4 million on receipt of the accounts. These changes did not result in our planned audit approach altering.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£32.8 million
Performance materiality	£16.4 million
Reporting threshold	£100 thousand

Source: NHS Greater Glasgow and Clyde Annual Audit Plan 2017/18

How we evaluate misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit. Adjusting errors totalled \pounds 32.093 million however as these mainly related to classification errors within the notes to the accounts the impact of these adjustments would be an increase in net operating costs of \pounds 0.041million and a corresponding reduction in net assets. A number of other mis-statements, including FHS accruals as detailed in Appendix 3 were identified which were not processed through the financial statements and these have been classified as unadjusted errors. The table at Appendix 3 reflects the late emerging adjustment of \pounds 2.7million relating to one IJB which was identified on 25 June.

22. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements.

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in Exhibit 3. Where a finding has resulted in a recommendation to

management, a cross reference to the Action Plan in Appendix 1 has been included.

24. The findings include our views about significant qualitative aspects of the board's accounting practices including:

- Accounting policies Significant financial statements disclosures which they are recorded
 - The impact on the financial statements of any uncertainties
 - Misstatements in the annual report and accounts

- Accounting estimates and judgements
- Timing of transactions and the period in
- The effect of any unusual transactions on the financial statements
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

Finding

1. Integrated Joint Board

Finance staff did not receive all of the unaudited IJB accounts by the required timescale. One IJB did not provide auditable figures for incorporation in to the NHS Greater Glasgow and Clyde group accounts until 11 June 2018. Due to the late receipt of this information audit work is still ongoing.

2. Road Traffic Accident

As reported in 2016/17, updated guidance was issued regarding the Injury Cost Recovery Scheme. The Cost Recovery Unit (CRU) within the Department for Work and Pensions pursues claims on the Health Board's behalf against insurance providers of drivers where an accident has resulted in treatment by the board. The board provides details of the treatment a patient receives and the Cost Recovery Unit calculate how much is due based on 'tariff rates'.

The guidance stipulates that an accrual of income should be included within the NHS accounts from the point at which details are processed. A corresponding bad debt provision should be established to recognise the possibility of rebuttal of claim or non-payment.

The board have recognised an accrual of income during 2017/18 of £3.4 million, however this is an estimate based on cash received for the last 3 months of 2017/18 rather than claims made. Furthermore, no bad debt provision or bad debt write off has been calculated although this is recommended by the guidance. The amount of the RTA income accrual, therefore, may be mis-stated in the accounts but, particularly in light of our materiality threshold at Exhibit 2, we do not believe this would be material.

Arrangements should be agreed well in advance with the six IJBs to ensure the flow of information will facilitate the timely certification of NHSGGC accounts.

Recommendation 1 (refer appendix 1, action plan)

The board should ensure that an appropriate process is in place for the recording of details processed in relation to the Injury Recovery Scheme.

Resolution

Recommendation 2 (refer appendix 1, action plan)

Finding

3. Debt write offs

It is normal practice for the board to write off debts which are deemed irrecoverable. Our review of the bad debt provision highlighted a number of debts over three years old and there were also debts relating to overseas patients. We have been informed that some of the overseas patient debt will be written off in 2018/19 but this area should be reviewed annually.

Resolution

The board should undertake an annual review of debts deemed to be irrecoverable and write off as appropriate.

Recommendation 3 (refer appendix 1, action plan)

Source: 2017/18 Audit of NHS Greater Glasgow and Clyde

Good practice in financial reporting

25. The annual report and accounts reflect good practice as set out in Audit Scotland good practice notes.

Follow up of prior year recommendations

26. We have followed up actions previously reported and assessed progress with implementation, these are reported in <u>Appendix 1</u> and identified by the prefix b/f (brought forward).

27. In total, 7 agreed actions were raised in 2016/17. Of these:

- 4 have been fully implemented
- 3 are not actioned or have only partly been actioned
- One of the action points assessed as being fully implemented relates to the savings target. The board achieved their savings target within 2017/18 through a combination of savings identified in plans and non-recurring support. However, given the financial challenges still facing the board this risk will continue.

28. Overall the board has made progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management in <u>Appendix 1</u>

Part 2 Financial management



Main judgements

NHS Greater Glasgow and Clyde has effective financial management arrangements in place.

NHS Greater Glasgow and Clyde has adequate systems of internal control in place during the year and these were appropriate and operated effectively.

Financial performance in 2017/18

29. NHS Greater Glasgow and Clyde, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in <u>Exhibit 4</u>, the board operated within all limits during 2017/18.

Exhibit 4

Performance against resource limits in 2017/18

Performance against resource limits set by SGHSCD	Resource Limit	Actual	Underspend
	£m	£m	£m
Core revenue resource limit	2,349.448	2,349.223	0.225
Non-core revenue resource limit	99.646	99.646	0
Total revenue resource limit	2,449.094	2,448.869	0.225
Core capital resource limit	46.264	46.260	0.004
Non-core capital resource limit	27.571	27.571	0
Total capital resource limit	73.835	73.831	0.004
Cash requirement	2,601.825	2,601.828	(3)
Source: NHS Greater Glasgow and Clyde's Annual Repor	t and Accounts 2017/18		

Underspend against Revenue Resource Limit (RRL)

30. NHS Greater Glasgow and Clyde recorded an underspend of £0.225 million against its 2017/18 revenue resource limit of £2,449.094 million. This outturn position is positive when considered in the context of the 2017/18 Local Delivery Plan (LDP) which had forecast a funding gap of £18.5 million. However, a number of specific in-year arrangements contributed to its achievement.

31. The financial position and projections were closely monitored by senior staff and reported to the Finance and Planning Committee throughout the year. The board was able to close its forecast financial gap through a range of management actions, additional financial support from the Scottish Government and continued reliance on substantial non-recurring funds. The financial support was provided by Scottish Government in recognition of the unfunded beds which NHS Greater Glasgow and Clyde has operated over a number of years. Discussions between the board and Scottish Government culminated in March 2018 when an allocation of £8 million was agreed. The board would not have operated within its Revenue Resource Limit (RRL) without this late allocation.

32. The board also relied on a number of short term measures and emerging outturns during 2017/18 to achieve financial balance including land sales, release of accruals, an underspend against budgeted capital charges and lower than budgeted CNORIS costs. This approach is not sustainable and will make it difficult for the board to plan and invest in long term policy aims. In future, the board will find it extremely challenging to maintain financial balance and there is a real risk that financial targets in 2018/19 will not be achieved.

Capital Resource Limit (CRL)

33. NHS Greater Glasgow and Clyde received a total capital allocation of £73.835 million in 2017/18. This was made up of £46.26 million core allocation which was underspent by £4k and £27.571 million of non-core allocation.

34. The capital allocation was spent on a number of building refurbishment programmes and capital investment continued on the programme to regenerate the Queen Elizabeth University Hospital site. There was agreement from Scottish Government during the year to transfer £10 million of capital funding to revenue. This transfer was agreed to optimise the year end capital and revenue outturn positions but it also represents one of the short-term measures used to achieve financial balance referred to in paragraph 32 above.

Efficiency savings

35. NHS Greater Glasgow and Clyde was required to make efficiency savings of £122.4 million. This proved to be challenging for the board and this target was only achieved through the utilisation of non-recurring funding and financial support from the Scottish Government.

36. 42.7% of savings were achieved on a recurring basis with the remainder on a non-recurring basis (57.3%). Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

37. As illustrated in Exhibit 5, NHS Greater Glasgow and Clyde has been increasingly reliant on non-recurrent savings in recent years. In our opinion, this situation is not sustainable for the board in the longer term.

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



Exhibit 5

Funding allocations

38. NHS bodies receive allocation letters throughout the year outlining the funding they will receive. As part of our financial statements audit we reviewed the final allocation letter and selected a sample of specific allocations to review in more detail. Finance officers provided detailed explanations and supporting schedules to outline what the funding related to, the basis of the funding and how the allocated funds were utilised. From the allocations reviewed we are satisfied that funding allocations have been accounted for appropriately and within the correct financial year.

Budgetary processes

39. We reviewed NHS Greater Glasgow and Clyde's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we observed that senior management and members receive regular, timely and up to date financial information on the board's financial position.

40. We concluded that NHS Greater Glasgow and Clyde has appropriate budgetary monitoring and control arrangements that allow both members and officers to carry out scrutiny of the board's finances.

Systems of internal control

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

42. Our findings were included in a management audit report presented to the Audit and Risk Committee on 13 March 2018. We concluded that the controls put in place by management are appropriate and operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Greater Glasgow and Clyde's ability to record, process, summarise and report

ICT controls

43. We undertook an ICT health-check as part of the 2017/18 audit. This enabled us to review eHealth's control environment, ICT service delivery, business continuity measures and its approach to asset protection and installation management. Our review did not identify any areas of significant concern regarding the Board's approach to ICT governance.

Financial capacity

44. Overall the board has suitably qualified and experienced staff. However, it has experienced some staffing changes within the finance function over the past year. These changes impacted upon officers involved in the preparation of the financial statements and subsequent audit process. The board implemented temporary arrangements for the financial year 2017/18 which allowed for the completion of the audit. However, it will be necessary to review roles and structures and to ensure succession plan arrangements are in place within finance.



Recommendation 4

The board should continue to ensure that the finance function is sufficiently resourced with staff of appropriate experience, skills and knowledge.

Part 3 Financial sustainability



Main judgements

NHS Greater Glasgow and Clyde has appropriate and effective financial planning arrangements in place based on the Local Delivery Plan (and, from 2018/19, the Annual Delivery Plan).

NHS Greater Glasgow and Clyde achieved its savings target but required to rely on a high proportion of non-recurring funding and other adjustments. This will increase the risk of not achieving savings targets and maintain financial balance in the medium term.

In the medium to longer term there is considerable uncertainty on the board's financial position due to EU withdrawal and the impact of New Financial Powers on budgets. In the absence of scenario planning or longer term financial modelling the board will find it difficult to manage its finances effectively.

Financial planning

45. The Board approved its first Annual Delivery Plan (for 2018/19) in June 2018. It replaces the Local Delivery Plan (LDP) and has been developed in line with guidance received from the Scottish Government. The Plan is the performance contract between NHS Greater Glasgow and Clyde and the Scottish Government.

46. NHS Greater Glasgow and Clyde's Local Delivery Plan (LDP) for 2017/18 to 2021/22 sets out how the board's financial, workforce and services plans implement its strategic priorities. The 2017/18 financial plan included a high level financial outlook for the period 2017/18 – 2020/21 which takes into account anticipated funding and cost changes over the period, whereas the 2018/19 financial plan sets out savings requirements for 2018/19 only.

47. The board's 2018/19 financial plan forecasts a requirement to make efficiency savings of £93 million in year. Challenges remain regarding the board's delivery of several targets outlined within the Annual Delivery Plan. Additional resources will be required to meet the Board's aim of returning by March 2019 to the waiting times levels achieved at March 2017 and this has been communicated to the Scottish Government as part of the annual operational plan.

New Financial Powers

48. Proposals have been made to amend the Scottish Budget process likely to be introduced for the 2019/20 budget. As the Scottish Government provides NHS Greater Glasgow and Clyde with nearly all of its funding it is dependent on the outcome of these proposals and has little scope to increase its funding from other means.

49. Overall, we concluded that the board is facing an extremely difficult situation in the short term. Rising costs, ending the public sector pay cap combined with small increases in funding and dependency on efficiency savings will make it difficult to

Financial sustainability looks forward to the medium and long term to consider whether the board is planning effectively to continue to deliver its services or the way in which they should be delivered. achieve financial balance. The 2018/19 budget reflects this and is projecting a deficit of £25 million to £30 million in 2018/19.

Medium to long term efficiency savings

50. As previously noted, NHS Greater Glasgow and Clyde achieved its efficiency savings target in 2017/18, albeit with \pounds 70.1 million being generated from non-recurring sources. The board started 2018/19 with an underlying recurring deficit of \pounds 67.8 million.

51. The board requires to make efficiency savings of £93 million in 2018/19, which is equivalent to 4.3% of the recurring baseline RRL in 2018/19. In previous years, directorates have been assigned a budget percentage efficiency target which is becoming increasingly difficult to achieve, which in part explains the large underlying recurrent deficit being carried forward.

52. The Executive Management Team have taken a number of actions to address the scale of the financial challenge and aim to achieve financial balance going forward. One key action identified has been the need for more organisation wide and centrally driven savings and efficiency initiatives. To facilitate this approach, the board has engaged external temporary expertise to drive a wider savings programme – the Financial Improvement Programme.

53. The Financial Improvement Programme is intended to be a comprehensive exercise to support the Board in achieving recurring financial balance in the future. A Programme Management Office has been established with a dedicated full time Programme Lead.



The board should ensure that savings plans are developed identifying how the £93 million of savings in 2018/19 will be achieved.

54. Neither the Annual Delivery Plan nor the board's Financial Plan sets out the savings requirements beyond 2018/19. The Board did prepare a 5 year scenario which contained basic indicative figures but the medium to longer term financial position is difficult to predict given the uncertainty around, for example, EU withdrawal and the arrival of new financial powers. The board needs to do more to plan for these events including scenario planning or modelling, together with identifying the necessary efficiency savings required to break even over the medium to longer term.

Recommendation 6

The board should prepare medium to longer term efficiency savings requirements based on its key financial assumptions about future funding and costs.

Workforce planning

55. In July 2017 the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce Planning. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.

56. NHS Greater Glasgow and Clyde is facing a number of workforce challenges including the age profile of the workforce and recruitment for some specialities. As at 31 March 2017, 35.5% of the workforce was aged 50 or over. Within support A51483446

and administrative services staff aged over 55 represent 35% and 29% of the workforce respectively. Within Nursing and Midwifery 18% of staff are currently aged over 55, a 4% increase on the 2011 figure. The board's 2017/18 Workforce Plan recognises the risks and implications of an ageing workforce and sets out the plans for the future model of its workforce.

57. The Corporate Risk Register recognises a range of risks in relation to the current and future medical workforce. Over the next five years there will be challenges for the service with a number of senior medical staff projected to retire. By November 2017, 19.7% of the consultant workforce had reached the age of 55. When this is extrapolated to November 2021 over 33% of the current consultant establishment could have retired or be eligible to retire.

58. Taking this into consideration along with the difficulties in recruiting to senior medical posts and general turnover at consultant level, this may result in reduced senior medical cover or increased locum and agency spend to cover service gaps.

59. As a result of recruitment and retention problems and measures designed to meet waiting time targets, expenditure on temporary staff has been a significant financial pressure over the last five years as illustrated in Exhibit 7. Although temporary staff provide flexibility in the short term, it comes at a cost. The board have recorded a reduction in the cost of employing temporary staff for the second year, however, spending on temporary staff remains above 2013/14.

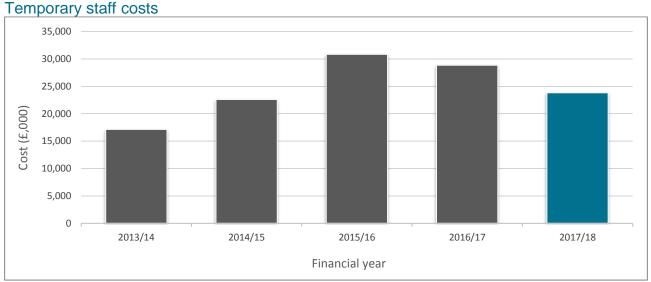


Exhibit 7

Source: NHS Greater Glasgow and Clyde Annual Report and Accounts 2017/18

60. The board has established a number of cost containment actions to help reduce these costs. These include the establishment of a management contract to oversee the appointment of locums, a review of the most expensive locums and, where possible, action to secure permanent staffing arrangements as well as a focus in year on premium rate agency nursing.

61. NHS Greater Glasgow and Clyde, like most NHS boards, is continuing to experience difficulties in achieving the national performance standard of 4% for sickness absence despite measures to maximise attendance at work. The sickness absence rate for the rolling year to February 2018 was 5.5% compared to 5.8% for the comparable period last year.

Ending of public sector pay cap

62. The ending of the public sector pay target will make it more challenging to maintain financial balance. The payroll costs within 2018/19 are based on the public sector pay policy, with a forecast increase of 3% to most staff.

EU withdrawal

63. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

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

64. The board has acknowledged that there is a great deal of uncertainty around EU withdrawal and this makes it difficult to quantify the impact or outline the actions that need to be taken.

Part 4 Governance and transparency



Main judgements

NHS Greater Glasgow and Clyde has appropriate governance arrangements in place that support scrutiny of decisions made by the board.

NHS Greater Glasgow and Clyde is open and transparent in the way it conducts its business but with some scope for improvement.

Governance arrangements

65. The board and accountable officer are responsible for establishing arrangements for ensuring the proper conduct of affairs at NHS Greater Glasgow and Clyde and for monitoring the adequacy of these arrangements.

66. The Board has several standing committees. Throughout 2017/18 we reviewed a wide range of governance documents, minutes and agenda papers. We attended all Audit and Risk Committee meetings and we consider these operate effectively. We also regularly attended the Acute Services Committee and the Finance and Planning Committee. To further support our wider dimension audit work, we also attended some meetings of other standing committees.

67. We observed a good level of scrutiny and challenge by members and it is evident that members are well prepared for meetings. A good working relationship exists between members and officers. Senior officers attend and present reports to all Board and committee meetings.

68. Members have a structured board seminar programme covering key areas of interest and importance. Members can request any additional information they require to support them in their role and can also suggest future seminar topics.

69. During the year, the governance arrangements were enhanced through a development whereby Standing Committee Chairs' provide an update to the Board on discussions and decisions made at their respective committees.

70. We did however note some challenges around agenda management, volume of papers and issuing of late papers. We attended some meetings where early agenda items received more substantial time and scrutiny in comparison to items later the agenda.

71. Overall, we concluded that the board has appropriate governance arrangements in place and these arrangements provide a framework for effective organisational decision making.

Transparency

72. Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. **73.** There is evidence from many sources which demonstrate the board's commitment to transparency including the annual accountability review (where members of the public can attend) and board meetings are also open to the public.

74. Committee meetings are held in private but the minutes are publicly available on the board's website. We recommend that committee meetings are held in public with only sensitive or confidential items held in private session(s).

75. Overall, we concluded that the board conducts its business in an open and transparent manner but we believe that there are some areas where the board could improve current arrangements.

Risk management

76. We reviewed the risk management arrangements within the board to assess their effectiveness and appropriateness. Over the past year, risk management arrangements have continued to be strengthened. A notable development in the year was the appointment of an independent expert to the Risk Management Steering Group to advise the board on good practice arrangements.

Internal audit

77. The board's internal audit function for 2017/18 was carried out by PriceWaterhouse Coopers (PwC). We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

78. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2017/18 we placed reliance on aspects of internal audit work in the areas of accounts payable, payroll and fixed assets. For the purposes of our wider dimension audit work we placed reliance on internal audit findings on areas including financial efficiency savings, premium rate agency use and cyber security maturity (phase 2).

79. In March of this year the Audit and Risk Committee approved changes to the original 2017/18 internal audit plan. The planned report on Scottish Medical Training review was postponed and removed from the internal audit plan as there was no agreed national framework in place against which to compare the Board's arrangements. Internal audit instead undertook a Financial Planning review which considered the methodologies applied by the board in developing its financial plans.

80. The June Audit and Risk committee received an update report from internal audit outlining the completion and conclusion of their planned audit work for 2017/18.

81. During 2018 the internal audit contract was put out to tender and was awarded to Scott Moncrieff for 2018/19 onwards.

Governance statement

82. Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board's system of internal control which operated in the financial year.

83. A number of risks are set out in the governance statement. These include issues such as financial sustainability, delayed discharges and achievement of a range of elective waiting time targets and unscheduled care targets. The statement also summarises internal audit findings and key reports issued in the year. The overall conclusion of internal audit's annual report was that arrangements were 'generally satisfactory with some improvements required'.

84. Overall, we concluded that the Board has adequate arrangements in place to support good governance and accountability. Board members provide adequate scrutiny and challenge at regular bi-monthly meetings to ensure the Board's performance is effectively reviewed. We are satisfied that the information in the governance statement is consistent with information gathered during the course of our audit work.

Quality of financial and performance reporting

85. The board has standing agenda items for separate financial monitoring and integrated performance reports with appropriate standing committees receiving updates in the intervening months. Finance reports outline the current and projected financial position as well as highlighting financial challenges and pressures. Whilst performance reports note the status of key performance indicators they also focus on areas for improvement and outline actions being taken by the board to address performance issues.

National Fraud Initiative

86. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

87. NFI activity is summarised in <u>Exhibit 8</u>. We submitted a follow up questionnaire to Audit Scotland in February 2018. This provides an update on the previous questionnaire and summarised our views on the board's arrangements for complying with the NFI exercise.



88. NHS Greater Glasgow and Clyde identified three frauds and one error from its review. The three frauds totalled £12k and arose as a result of changes in individual employees' circumstances. There is no recovery of these funds as the employees were appropriately paid for shifts worked prior to noticing changes in circumstances. The one error identified was for £3k and related to a duplicate invoice. Action has been taken to recover these funds.

89. We concluded that NHS Greater Glasgow and Clyde has shown commitment to the exercise and have investigated a significant number of non-recommended matches.

Standards of conduct for prevention and detection of fraud and error

90. The board has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

91. We concluded that the board has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention

Cyber security

92. In response to the increasing impact that cyber-attacks are having on public sector organisations, the Scottish Government issued their Public Sector Action Plan (PSAP) on Cyber Resilience in November 2017.

93. The PSAP requires all organisations to provide independent assurance about five critical network controls (stated in the plan), recommending Cyber Essentials (CE) Plus accreditation as the preferred option to provide this. During 2017/18 all organisations were expected to commission a CE Pre-assessment that would allow local management to make informed decisions about how this assurance would be achieved.

94. Cyber security improvement has been a key focus of NHSGGC over recent years. Prior to the publication of the PSAP, detailed review of cyber security maturity and effectiveness was included in the agreed 2017/18 IA plan. An initial report focusing on the technology aspects of cyber security concluded that although NHSGGC's infrastructure was complex, positive progress was being maintained with the board's technical cyber maturity assessed as good. Formal review of the recommendations in this initial report was completed later in the year and it concluded that the majority of the agreed actions were complete.

95. This focus on cyber security improvement proved to be beneficial when approaching the requirements of the PSAP. NHSGGC appointed NCC to perform the CE pre-assessment, directing them to consider the infrastructure as two distinct sections: the core (or corporate) network that supports acute service provision, and the extended network that supports General Practice. This approach has allowed CE accreditation to be achieved for the corporate network, whilst identifying that two of the five critical controls within the extended network require additional work. An agreed plan is in place and management are confident CE accreditation will be achieved for the full infrastructure by October 2018.

96. We concluded that NHSGGC is actively strengthening its cyber resilience arrangements. The board has completed its CE pre-assessment, achieving certification for its corporate network on 21st March 2018, and is on track to achieve full Cyber Essentials compliance by the end of October 2018. We will review progress during our 2018/19 audit.

General Data Protection Regulation

97. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. All EU member states have to implement the Regulation in the same way. GDPR has introduced new and significantly changed data protection concepts.

98. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the board incurring significant fines. A51483446

99. NHS Scotland established a short working life group to prepare for the implementation of GDPR, with representation from health boards including NHS Greater Glasgow and Clyde. The group produced a checklist which NHSGGC developed into an action plan under the NHS Greater Glasgow and Clyde Information Governance Steering Group. The Audit and Risk Committee received updates during the year on actions being taken and progress made covering prior and post implementation.

100. We concluded that NHS Greater Glasgow and Clyde has arrangements in place to ensure the requirements of GDPR were addressed in time for implementation.

Health and social care

101. There are six Integration Joint Boards (IJBs) within NHS Greater Glasgow and Clyde's catchment area and they became fully operational on 1 April 2016. The board has good arrangements in place to identify all the financial transactions that relate to each IJB. It also has arrangements in place to agree the its share of the IJB budgets and it provided each IJB with the appropriate financial information to enable them to monitor their financial budget.

102. During the first half of 2017/18 there were ongoing discussions with integrated joint board partners around the agreement of the financial settlement. Throughout the year discussions with IJB Chief Officers continued and this has helped to strengthen relationships and has led to financial settlements for 2018/19 being agreed on a more timely basis.

103. Health Boards and Integration Authorities were required to agree a figure to cover the "set aside" sum for large hospital services to be included in their respective 2017/18 annual accounts. The Board and IJB have chosen to continue the transitional agreements for agreeing the set aside sum.

104. It is however difficult to point to any shifts in spending (away from hospital care, toward the community) or improvements in performance resulting from the new structures; or to clearly identify specific actions that have led to improvements as there are many initiatives ongoing.

2020 Vision

105. In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 vision. The Board's clinical strategy outlines how the 2020 vision will be taken forward by the Board.

Good practice

106. New financial reports were developed during 2017/18. From attendance at the Finance and Planning committee over the past year we have noted an increase in the depth of discussions and the scrutiny around the financial position and projections. The committee are presented with detailed financial reports by the Director of Finance. These detailed reports provide better linkage and tracking of the financial position from the start of the year through to year end projections.

107. The new layout of the financial reports has promoted more transparent financial reporting and has been designed taking into account requests from members to incorporate more graphics and trend analysis.

108. The board maintains a staff register of interest which all staff should complete. This helps to identify any related parties or conflicts of interest and helps the board to be open and transparent.

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Part 5 Value for money



Main judgements

NHS Greater Glasgow and Clyde has an effective performance management framework in place that supports the board in its drive to achieve value for money and continually improve how it delivers services.

NHS Greater Glasgow and Clyde's performance against LDP standards continues to be below established targets.

Performance management

109. The Scottish Government monitors how NHS Greater Glasgow and Clyde performs against the targets it set in its national performance framework. These include targets and their trajectories (plans) as set out in the board's Local Delivery Plan (LDP). Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks, otherwise known as the Treatment Time Guarantee.

110. The board is kept well informed of performance across all areas. The board received Integrated Performance Reports in the form of a balanced scorecard on a regular basis detailing performance against board wide LDP standards and other local standards. The detailed review and scrutiny of performance has been delegated to the Acute Services Committee.

111. Each meeting of the Board and Acute Services Committee receives an integrated performance report. Performance is reported using key indicators (including the LDP Standards for 2017/18). Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

112. Committee members receive supplementary reports on specific aspects of performance, namely waiting times and the financial position. These enable members to focus on key risks relating to access to treatments and financial sustainability.

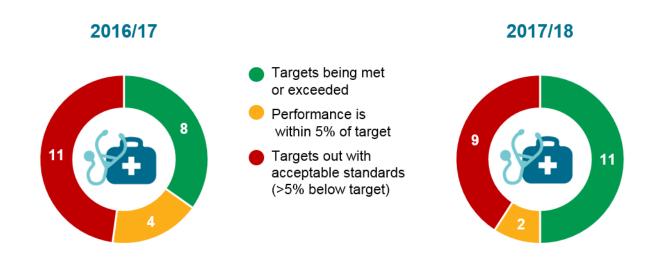
113. We concluded that NHS Greater Glasgow and Clyde has an effective performance management framework in place assisting the board in securing value for money and aiding continuous improvement in how it delivers services.

Overview of service performance

114. The board's performance information, presented to the May Acute Services Committee, detailed performance against 35 separate measures, 22 of which were given a performance rating. These include LDP Standards as reported in the 2017/18 annual accounts, and based on the most up-to-date position at the end of $Mar_{CB} + 228 + 346$ summarised in Exhibit 9.

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

Exhibit 9 Overall performance against LDP standards



Source: Annual Report and Accounts; Integrated Performance report to Acute Services Committee May 2018

115. Overall, NHS Greater Glasgow and Clyde has continued to experience difficulties in achieving many key performance targets over the past year. However, there are a number of targets that are outwith acceptable standards and more detail is provided on these in Exhibit 10.

Exhibit 10

Performance against key LDP standards

Target/standard		Performance at March 2018 (March 2017) ¹	Action being taken by Board
62 Day Cancer Wait Patients with a suspicion of cancer treated within 62 days	95%	82.1%	Re-modelling work to reduce patient pathway gaps. A review of endoscopy capacity has been undertaken and a consistent approach to booking is being applied across all sectors.
31 Day Cancer Wait Patients diagnosed with cancer who begin treatment within 31 days	95%	93.6%	Work to re-model patient pathways to ensure that milestones in a patient treatment plan.
Diagnostics Number of patients waiting more than 6 weeks for a key diagnostic test A51483446	0	6,139	Focus remains on patients with the highest clinical priority and longest wait time. Work is underway to

Target/standard		Performance at March 2018 (March 2017) ¹	Action being taken by Board
			redistribute patients across each of the three sectors.
Accident and Emergency 4 hour wait time target	95%	86.7%	Thrice daily monitoring is ongoing as well as
Proportion of patients waiting less than 4 hours from arrival to admission			conference calls with IJB Chief Officers to ensure effective management of patient flows in relation to delayed discharges and patient flow.

Note: 1. Figures still to be validated by NHS Information Services Division.

Source: Acute Services Committee May 2018

116. The Scottish Government has indicated that in 2018/19 NHS Boards are expected to focus on eight key standards that are most important to patients. It is expected that NHS Greater Glasgow and Clyde will achieve as a minimum the March 2017 outturn position by March 2019.

117. The board are committed to achieving the March 2017 performance level, however recognise that this represents a significant challenge. Improvement work is underway to identify and realise productivity gains, redesign services and patient pathways. The board acknowledge that whilst these measures will assist in addressing waiting time performance, a level of additional capacity will be required as the baseline includes waiting list initiatives and the utilisation of non-recurring funds.

Recommendation 7

The board should review and monitor the investments designed to improve performance and determine whether specific area/specialities require more detailed scrutiny.

Shared services

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

119. NHS Greater Glasgow and Clyde is heavily involved in national and regional developments and officers regularly update the Board on developments.

National performance audit reports

120. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 a A51483446 number of reports were published which are of direct interest to the board and are highlighted in <u>Appendix 4</u>.

121. In 2016/17 we reported that no formal process was in place to ensure that Audit Scotland national reports were considered by officers. In response to this, the Board has established processes to ensure that national performance reports and their impact on the board are considered by the Audit and Risk Committee or an appropriate governance committee.

122. There has been evidence during the year of actions taken in response to national reports being reported back to the Audit and Risk Committee.

Appendix 1 Action plan 2017/18

2017/18 recommendations for improvement



No. Issue/risk

1 Consolidation of IJB Accounts

The IJB accounts and papers were not provided within agreed timescales.

Risk

The accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late. Accounts preparation and audit work are put under additional pressure.

2 Road Traffic Accident

The income accrual is not in line with guidance issued by the Department of Work and Pensions. There is no bad debt provision nor bad debt write off as recommended by the guidance.

Risk

The RTA debtor position within the financial statements may be mis-stated.

The board should ensure that an appropriate process is in place for the recording of details processed in relation to the Injury Recovery Scheme.

ISA 260 Finding 2

Recommendation

Arrangements should be

accounts.

ISA 260 Finding 1

agreed well in advance with

the six IJBs to ensure the flow

of information will facilitate the

timely certification of NHSGGC

Agreed management action/timing

Difficulties related to one IJB, centred around challenges in agreeing closing figures.

Discussion will be held with IJB Chief Officers and Chief Finance Officers to ensure adherence to the agreed timetable for the 2018/19 Annual Accounts.

Responsible officer:

Director Of Finance

Agreed date: March 2019

In response to the previous audit recommendation, a system was implemented to allow for the collection of RTA data in 2017/18 and this will continue in 2018/19. This will form the basis of the database required for the Recovery Scheme.

Responsible officer:

Assistant Director of Finance

Agreed date: April 2018

3 Debt Write off

Our review of the bad debt provision highlighted a number of debts over three years old and there were also debts relating to overseas patients. We have been informed that some of the overseas patient debt will be written off in 2018/19. The board should undertake an annual review of debts deemed to be irrecoverable and write off as appropriate.

ISA 260 Finding 3

A review was completed as part of the year end process, with none of the balances deemed suitable for write-off at that time. However, a review of debts will be carried out in the second quarter of 2018/19 and any debts identified as irrecoverable will be written off This process will be implemented twice yearly to

Risk A51483446



mis-stated.



Recommendation



Agreed management action/timing

ensure that irrecoverable debts are not carried forward.

Responsible officer: Assistant Director of Finance

Agreed date: September 2018

4 Capacity of finance function

The annual accounts may be

The finance function has experienced staffing changes over the past year which affected officers involved in the preparation of the financial statements. Temporary arrangements were established however longerterm solutions are required.

Risk

The finance function is not appropriately resourced in terms of experience and knowledge, potentially leading to issues with financial management and accounts preparation. Review roles and structures within finance to ensure they meet current demands. Ensure succession planning arrangements are in place.

Paragraph 44

A wider review of the whole finance function is planned for 2018/19. This will address current vacancies and include succession plans.

Responsible officer: Director of Finance

Agreed date: 31 December 2018

5 Efficiency savings

For 2018/19 the board is required to deliver savings of £93 million. The board has yet to identify how all the savings will be achieved.

Risk

The board may not be able to deliver the targeted savings in 2018/19, and beyond.

The board should ensure that savings plans are developed identifying how the £93 million of savings required will be delivered.

Paragraph 54

The organisation has implemented a wide ranging Financial Improvement Programme (FIP) designed to address the Board's financial position. However, this is against an ever increasing challenge to identify and achieve recurring savings.

Responsible officer: Chief Executive/Director of Finance

Agreed date: On-going

6 Medium to long term efficiency savings

The Annual Delivery Plan does not set out the savings requirement beyond 2018/19.

Risk

Savings requirements for the medium to longer term may not be identified and may not be achieved.

The board should prepare medium to long term efficiency savings requirements based on its key financial assumptions about future funding and costs.

Paragraph 55

5 year projections have been presented to both the Finance and Planning Committee and the Board. The FIP is a permanent programme designed to address the financial challenge in both the short and longer term.

Projections, with scenarios, will continue to be calculated and presented through the financial





Recommendation



Agreed management action/timing

year as the assumptions change.

Responsible officer: Chief Executive/Director of Finance

Agreed date: March 2019

7 Overview of service performance

The Scottish Government has identified a number of performance standards that significantly impact on patients which boards have to focus on in 2018/19. The boards performance against a number of these key standards has been in an adverse position during 2017/18.

Risk

Performance may not improve or may continue to deteriorate if not addressed. The board should review and monitor its investments designed to improve performance and determine whether specific areas/specialities require more detailed scrutiny or additional actions to be taken.

Paragraph 117

Achieving waiting times targets remains a key priority for the Board. However, financial constraints, staffing shortages and increasing demand present an ever difficult landscape.

The Annual Operational Plan re-iterates that commitment and outlines the trajectories, the resources required and the actions to try and address achievement of the targets.

Responsible officer: Chief Operating Officer

Agreed date: March 2019

Follow up of prior year recommendations

b/f	1. Performance and Accountability Report The performance and accountability reports were not completed and reviewed within a sufficient timeframe to ensure inclusion with the draft financial statements passed to audit.	The timetable for the completion of the financial statements should include an allowance for a management quality review of the performance and accountability reports prior to submitting a draft version to audit.	Updated response: The Performance and Accountability reports were provided within agreed timescales. Quality control processes were established to ensure the draft reports provided to audit were of an appropriate standard.
	Risk		Responsible officer: Director of Finance
	The audit is delayed due to the absence of key sections of the annual accounts.		Revised date: N/A – implemented.
b/f	2. Consolidation of IJB Accounts	Arrangements should be agreed well in advance with	Updated response: The IJB working papers were not
	The IJB accounts and papers were not provided within	the six IJBs to ensure the flow of information will facilitate the	provided in line with agreed timescales.
	agreed timescales.	timely certification of NHSGGC accounts.	Revised action: see action plan point 1 above.
	Risk		
	The accounts do not include the necessary consolidation		Responsible officer: Director of Finance



lssue/risk

No.



Recommendation



Agreed management action/timing

Revised date: March 2019 adjustments and are delayed if the financial information is received late. The audit opinion is modified if the accounts are incomplete. b/f 3. Road Traffic Accident The board should establish Updated response: The Debtor appropriate processes to board have established an maintain records of the claims accrual of income, however The board currently do not being pursued on their behalf. this is based on a cash basis accrue any income or have a This will enable the for the last 3 months of bad debt provision within the quantification of accrued 2017/18 rather than claims financial statements in relation income and the corresponding received in year. There is no to the Injury Recovery bad debt provisions or bad bad debt provision in future. Scheme. debt write off as recommended by the guidance. Risk Revised action: see action The debtor position within the financial statements is plan point 2 above understated due to the Responsible officer: omission of the accrued Assistant Director of Finance income in relation to the Injury Recovery Scheme. Revised date: April 2018 b/f 4. Savings targets The board should ensure that Updated response: The savings plans are developed to board achieved financial Savings plans do not currently ensure delivery of the required balance through a combination identify how the savings £122.4 million of savings of savings identified in plans, requirement of £122.4 million required in 2017/18, including non-recurring funds and will be achieved. the unidentified £18.5 million, Scottish Government support. will be achieved. Risk Revised action: see action plan point 5 above There is a risk that savings required to fund the budget Responsible officer: Chief gap are not realised. Executive/Director of Finance Revised date: On-going b/f 5. Integration Joint Board's The board should engage with Updated response: The arrangements each Integration Joint Board to board have taken a pro-active ensure the development of approach in working with their The board has not agreed robust governance and IJB partners. This has financial settlements with each financial arrangements, ensured that financial of the Integration Joint Board including the agreement of the settlement agreements have for 2017/18. financial settlement for been agreed earlier in 2017/18 and related efficiency 2018/19. Risk savings. Responsible officer: Director There is a risk that Integration of Finance Joint Board arrangements are not fully effective due to Revised date: N/A difficulties in agreeing Implemented arrangements around their governance and financial arrangements. b/f The board should monitor its Updated response: The 6. Performance targets board did not achieve all its investments designed to

improve performance and





Recommendation

actions to be taken.

determine whether specific

areas/specialities require more

detailed scrutiny or additional

No. Issue/risk

The board did not achieve all its performance targets in 2016/17.

Risk

There is a risk that in a climate of challenging funding settlements and competing priorities, performance targets are not achieved or maintained.



Agreed management action/timing

performance targets in 2017/18.

Revised action: see action plan point 7 above

Responsible officer: Chief Operating Officer

Revised date: March 2019

b/f 7. National Reports

The board do not have a formal process in place for reviewing published reports and determining the appropriate review and follow up action to be taken.

Risk

There is a risk reports are not considered by appropriate committees or officers or actions arising are not followed up. The board should establish a formal process for the consideration and follow up of Audit Scotland national reports by appropriate officers and that actions taken are reported back to the Audit and Risk Committee. **Updated response:** A process has been established to ensure that national performance reports and their impact on the board are considered by the Audit and Risk Committee or appropriate governance committee.

Responsible officer: Finance Governance Manager

Revised date: N/A – Implemented.

Appendix 2 Significant audit risks identified during planning

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

Audit risk

Assurance procedure Results and conclusions

Risks of material misstatement in the financial statements

1	Risk of management override of controls	Detailed testing of journal entries.	No unusual or inappropriate transactions were identified as
	ISA 240 requires that audit work is planned to consider the	Review of accounting estimates.	part of our detailed journal testing.
	risk of fraud, which is presumed to be a significant risk in any audit. This includes	Focussed testing of accruals and prepayments.	A review of accounting estimates did not show any evidence of bias.
	consideration of the risk of management override of controls to change the position disclosed in the financial	Evaluation of significant transactions that are outside the normal course of business.	Focussed testing on accruals and prepayments did not identify any instances of management override of controls.
	statements.	Substantive testing of transactions after the year end, to confirm expenditure and income have been accounted for in the correct	Substantive testing of transactions around the year end identified controls were operating effectively.
		year.	Conclusion: We did not identify any incidents of management override of controls.
2	Risk of fraud over income	Analytical procedures on income streams.	Detailed testing of revenue transactions confirmed these
2	NHS Greater Glasgow and Clyde receives a significant amount of income in addition to	income streams. Detailed testing of income transactions focussing on the	
2	NHS Greater Glasgow and Clyde receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there	income streams. Detailed testing of income	transactions confirmed these were normal business transactions and had been
2	NHS Greater Glasgow and Clyde receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in	income streams. Detailed testing of income transactions focussing on the areas of greatest risk. Obtain assurances form the NHS Scotland Counter Fraud	transactions confirmed these were normal business transactions and had been accounted for in the correct year. Assurances were obtained from the findings of NHS Scotland
2	NHS Greater Glasgow and Clyde receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there	income streams. Detailed testing of income transactions focussing on the areas of greatest risk. Obtain assurances form the NHS Scotland Counter Fraud Service. Complete NFI audit questionnaire to assess progress and actions taken by the board to investigate	transactions confirmed these were normal business transactions and had been accounted for in the correct year. Assurances were obtained from the findings of NHS Scotland Counter Fraud Service. Completion of the NFI questionnaire identified significant work had been undertaken by NHS Greater Glasgow and Clyde to investigate

٨	dit rick	Accurance procedure	Poculto and conclusione
Au	dit risk The assumption on fraud over	Assurance procedure Detailed testing of income	Results and conclusions transactions and had been
	income is mirrored in terms of aspects of expenditure. NHS Greater Glasgow and Clyde incurs significant expenditure on a range of activities which	transactions focussing on the areas of greatest risk.	accounted for in the correct year.
		Obtain assurances form the NHS Scotland Counter Fraud	Assurances were obtained from the findings of NHS Scotland Counter Fraud Service.
	will require audit coverage.	Service. Complete NFI audit questionnaire to assess progress and actions taken by the board to investigate matches.	Completion of the NFI questionnaire identified significant work had been undertaken by NHS Greater Glasgow and Clyde to investigate NFI matches.
			Conclusion: No evidence of fraud over income.
4	Estimation and Judgements There is a significant degree of	Completion of the 'review of the work of an expert' for the professional valuer.	Review of the work of an expert was completed for the professional valuer and the
	subjectivity in the measurement and valuation of the material account areas of non-current assets and	Review of information provided by the Central Legal Office.	Central Legal Office which confirmed that assurances can be taken from their work.
	provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	Focussed substantive testing on values and balances which are derived by valuation and estimation, including accruals and provisions.	A review of the revaluations performed by the valuer identified these had been performed in a reasonable manner and had been correctly reflected in the financial statements.
			A review of the information provided by the Central Legal Office to support the provision clinical and medical legal claims and for CNORIS did not identify any issues and these have been correctly reflected in the financial statements.
			A review of other estimates and judgements did not show any evidence of bias and accounting policies were appropriate.
			Conclusion: Estimations and judgements included in the financial statements are supported by evidence.
5	Financial Capacity	We shall have early discussion with officers	Discussions with officers regarding the annual accounts.
	The health board has experienced staffing changes within the finance function. These changes will affect	regarding the annual accounts timetable. Discussions will continue throughout the course of the audit.	Weekly meetings with finance officers throughout the audit process.
	officers involved in the preparation of the financial statements and the subsequent audit process.	We will issue a working paper checklist to outline requirements and agree timescales for the receipt of	A working paper checklist was issued in March 2018 outlining the requirements for the annual accounts working papers.
	The board should ensure that the finance function is appropriately resourced and that effective succession	unaudited accounts and working papers.	Conclusion: The unaudited accounts along with supporting working papers

Au	dit risk	Assurance procedure	Results and conclusions
	planning arrangements are in place. There is a risk that the finance department is not sufficiently resourced in terms of time, experience and knowledge to support the preparation of the financial statements.		were provided in line with agreed timescales.
6	Integration Joint Board's arrangements The 2016/17 IJB accounts and working papers were not provided within planned timescales at the year end. The Board should agree a timetable and approach to obtaining IJB figures for consolidation and assurances required for the group governance disclosures. There is a risk that the accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late.	We shall have early discussions with officers regarding the timetable and delivery process. We shall seek assurances from the appointed external auditor at each IJB and liaise as appropriate. We will obtain assurance from the Board's Director of Finance for the group governance disclosure. Specific group account testing will assess the appropriateness of consolidation transactions.	Early discussions with officers confirmed the year end timetable for receipt of IJB information. Assurances were obtained from the appointed external auditor at each IJB. We are completing specific group account testing on the consolidation transactions. The results of the IJBs were appropriately brought in to the board's accounts. Conclusion: Whilst arrangements were in place for the receipt of the IJB accounts and working papers, the timing of this was significantly later than the agreed timescales.
7	Performance Report During the 2016/17 financial statements audit the performance and accountability reports were not provided with the draft financial statements due to the reports not being completed and reviewed within a sufficient timeframe. There is a risk that the financial statements audit cannot be completed within the agreed timeframe if the report is not produced timeously.	We will issue a working paper checklist to outline requirements and agree timescales for the receipt of the performance and accountability reports. We shall have early discussion with officers regarding the timetable and delivery process.	The working paper checklist was issued in March 2018. Discussions took place with officers regarding audit expectations for the performance report and the quality control processes established to ensure the report was ready within agreed timescales. Conclusion: The Performance report was provided within agreed timescales. Quality control arrangements were evident.
8	Road Traffic Accident (RTA) Debtor During 2016/17 new guidance was issued in relation to how RTA income should be reflected within the financial statements. We identified that the board did not accrue any income or apply a related bad debt provision within the financial statements in relation to the Injury Recovery Scheme as required by the revised guidance. Instead recognition	Early discussions with finance officers to determine what processes have been put in place to appropriately record claims pursued on the board's behalf. Review of established processes. Substantive testing of the board's RTA income and debtor figures and associated provisions. Discussions with officers to assess the effectiveness of	Discussed with officers and review of the procedure established by the board to record RTA claims and associated income and debtors and provisions figures. Conclusion: The board have established an accrual of income during 2017/18 , however this is an estimate based on cash received for the last 3 months of 2017/18 rather than claims made. There is no bad debt provision nor bad

Audit risk	Assurance procedure	Results and conclusions
was only at the point of receipt of income.	measures to receive and communicate relevant changes in legislation and regulation.	debt write off as recommended by the guidance.
The board should ensure that an appropriate process is in place for the recording of details processed in relation to the Injury Recovery Scheme, otherwise there is a risk that income is mis-stated within the financial statements.		
The board should also ensure that effective arrangements are in place for ensuring that all legislative and regulatory changes are identified and that relevant services are acting upon the guidance.		

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

9 Financial position and Financial sustainability

NHS Greater Glasgow and Clyde's financial plan for 2017/18 identified a savings requirement of £122.4 million. The board were unable to set a balanced budget for the year and the financial plan recognised a funding gap of £18.5 million. The board reported an overspend of £24.4 million to the end of September 2017 and are reporting an expected overspend of £20 million at the year end. This figure may change due to uncertainties relating to winter pressures. The Financial Plan forecasts future savings requirements of £54 million, £56 million and £57 million over the next three years.

There is a risk that planned savings are not realised or achieved recurrently resulting in the board's financial position deteriorating.

10 Performance targets

The board continues to face difficulties in achieving all performance targets. There is a risk that, due to financial pressures and competing priorities, performance targets are not met. Monitor updates to the Financial Plan and the ongoing financial position.

Review the monthly financial returns to the SGHSCD.

Review the financial monitoring reports to the board, acute services committee and finance and planning committee.

Test a sample of transactions substantively before and after the year end to confirm expenditure and income has been accounted for in the correct financial year. Reviewed the financial plan and relevant financial papers to monitor the ongoing financial position.

Reviewed the monthly returns to the SGHSCD.

Attended Finance and Planning committees. Reviewed financial monitoring reports presented to the Board and other standing committees.

Discussions with finance officers to keep up to date with financial developments during the year.

Reviewed a sample of pre- and post-year end transactions and confirmed that these were accounted for in the correct financial year.

Conclusion: The board achieved their savings requirement of £122.4 million, albeit with significant reliance on non-recurrent funds.

Monitor the regular performance reporting to the board and its standing committees.

Attendance at Acute Services Committee.

Reviewed the Integrated Performance Reports presented to the Board and Acute Services Committee.

Attended Acute Services Committee.

Conclusion: The board continues to experience challenges in improving

Audit risk	Assurance procedure	Results and conclusions
		performance against a number of key performance targets.

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £100,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensi expenditure s	ve income and tatement	Balance sheet	:
		Dr £000	Cr £000	Dr £000	Cr £000
1	Accruals			1,144	
	FHS		1,144		
2	Accruals				163
	FHS (Prescribing)	163			
3	Trade Creditors			207	
	Income tax and social security				207
4	Accrual (untaken leave)			233	
	Staff costs		233		
5	Land			305	
	Buildings				305
6	Investments in joint ventures				2,747
	Other reserves – joint ventures			2,747	
Net i	mpact	163	1,377	4,636	3,422

Notes:

1. Entry 1 relates to a year end over accrual of FHS non cash limited expenditure which was included within the accounts

2. Entry 2 relates to an under accrual of FHS prescribing which was not included within the accounts.

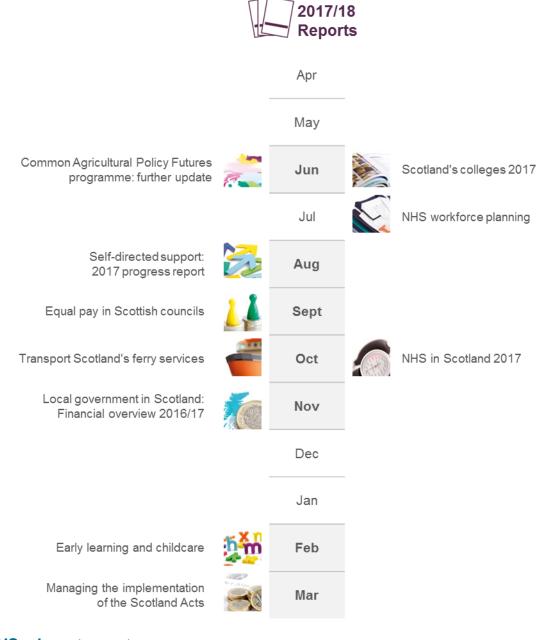
3. Entry 3 relates to a mis-posting within creditors of £207k between trade creditors and income tax and social security.

4. Entry 4 relates to an over accrual of untaken annual leave included within the accounts.

5. Entry 5 Buildings are overstated and land is understated within the accounts by £305k.

6. Entry 6 relates to Other reserves joint ventures being overstated by £2.747m within the accounts.

Appendix 4 Summary of national performance reports 2017/18



NHS relevant reports

NHS workforce planning - July 2017

Self-directed support: 2017 progress report – August 2017

NHS in Scotland 2017 - October 2017



NHS Greater Glasgow and Clyde

2017/18 Annual Audit Report

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NHS Greater Glasgow and Clyde 2018/19 Annual Audit Report

VAUDIT SCOTLAND

Prepared for the Board of NHS Greater Glasgow and Clyde and the Auditor General for Scotland 26 June 2019

Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
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- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2018/19 annual report and accounts

- **1** NHS Greater Glasgow and Clyde's financial statements give a true and fair view and were properly prepared.
- 2 Expenditure and income were in accordance with applicable enactments and guidance.
- **3** 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.

Financial management

- 4 NHS Greater Glasgow and Clyde (the Board) met all its financial targets for 2018/19 and achieved an underspend of £0.339 million against its Revenue Resource Limit for the year. This is set in context against the overall savings requirement for the Board of £93 million for 2018/19.
- 5 The Board has appropriate and effective financial management arrangements in place and has established robust arrangements to identify and monitor financial savings through its Financial Improvement Programme (FIP).
- 6 Additionally, the Board has adequate systems of internal control in place to underpin the delivery of the savings programme and to support the day-to-day financial management of the organisation. These same systems enable the production of clear financial monitoring reports as well as the year-end financial statements. Our testing of key controls confirms that they operated effectively during 2018/19.

Financial sustainability

- 7 NHS Greater Glasgow and Clyde has appropriate and effective planning arrangements to identify and mitigate risks to the ongoing financial sustainability of the organisation. These arrangements are based around the Board's three year Financial Plan which provides the strategic framework for its Annual Operational Plan (AOP). The Board has also developed its FIP to sit alongside the three year Financial Plan which provides the strategic framework for the annual cost improvement/efficiency programme.
- 8 The FIP aims to deliver organisation wide and centrally driven savings and efficiency initiatives. As we noted previously, the Board achieved its £93 million savings target for 2018/19 and successfully reduced its underlying recurring deficit from £67.8 million to around £50 million. However, the Board relied on substantial non-recurring savings and a sizeable capital to revenue transfer to achieve financial balance in 2018/19.
- 9 The Board recognises that such reliance on non-recurring savings and efficiencies is not a sustainable solution to the financial challenge going forward and the financial plan for the current year (2019/20) details a reduction in the current level of non-recurring savings.

- 10 In the short to medium term the Board has identified an overall savings target of £296 million over the three year period from 2019/20 to 2021/22. To-date plans have been identified to deliver £134 million of savings/efficiencies over the same period, leaving an unidentified savings target of £135 million still to be addressed. The FIP is fundamental to the identification of the required savings to bridge the £135 million gap and to ensure the robust and timely delivery of the savings plans already identified.
- 11 Looking in the medium to longer term, the achievement of recurring financial balance will require a whole service redesign approach that currently forms the basis of the Moving Forward Together programme. The delivery of Moving Forward Together presents a significant challenge that will, in all likelihood, require the Board to take difficult decisions and which the Board recognises it cannot deliver in isolation. Successful partnership working is fundamental to the successful delivery of Moving Forward Together.

Governance and transparency

- **12** The Board has appropriate and effective governance arrangements in place that support scrutiny of decisions made by the Board.
- **13** NHS Greater Glasgow and Clyde is open and transparent in the way it conducts its business and there is effective scrutiny of the financial and performance management process.

Value for money

- 14 NHS Greater Glasgow and Clyde has a clear performance management framework in place that supports the Board in its drive to deliver value for money and focusses attention on the organisations ambition to continuously improve service delivery. Our overall view is that the framework is generally effective, but the opportunity exists to secure further meaningful improvements in its design and operation.
- 15 The Board experienced difficulties in meeting some of the Scottish Government key performance targets during 2018/19 and only fully achieved two out of the eight required measures. However, the Board delivered notable improvements in performance against revised trajectories agreed with the Scottish Government for endoscopy services, the treatment time guarantee and outpatients waiting time targets. It is essential that the Board builds on this success and seeks to transfer learning to those areas where performance has been slow to improve.

Introduction

1. This report summarises the findings from our 2018/19 audit of NHS Greater Glasgow and Clyde (NHSGGC or the Board).

2. The scope of our audit was set out in our 2018/19 Annual Audit Plan presented to the Audit and Risk Committee at its meeting on 11 December 2018. This report comprises the findings from:

- an audit of the Board's annual report and accounts
- consideration of the wider dimensions that frame the wider scope of public audit set out in the <u>Code of Audit Practice 2016</u> as illustrated in <u>Exhibit 1</u>.

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

- 3. The main elements of our audit work in 2018/19 have been to:
 - review of the Board's main financial systems;
 - audit of the Board's 2018/19 annual report and accounts including the issue of an independent auditor's report setting out my opinions;
 - consider the four audit dimensions set out in Exhibit 1 above.

Adding value through the audit

- 4. We add value to NHS Greater Glasgow and Clyde through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements;
 - early engagement on accounting issues such as the untaken leave accrual and ongoing discussions relating to Integration Joint Board arrangements and road traffic accident income;
 - sharing intelligence and good practice through our national reports (Appendix 4) and good practice guides; and
 - providing clear and focused conclusions in respect to the four audit dimensions.

5. In so doing, we aim to help NHS Greater Glasgow and Clyde promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. NHS Greater Glasgow and Clyde has primary responsibility for ensuring the proper financial stewardship of the public funds within its control. This includes preparing an annual report and accounts that are in accordance with the relevant directions from the Scottish Ministers. The Board's annual report and accounts includes the following:

- Performance Report;
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and, Parliamentary and Accountability Report); and
- Financial statements and supporting notes.

7. The Board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its strategic objectives.

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the <u>Code of Audit Practice</u> <u>2016</u> and supplementary guidance and International Standards on Auditing in the UK.

9. 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;
- suitability and effectiveness of corporate governance arrangements; and
- financial position and arrangements for securing financial sustainability.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the <u>Code of Audit Practice 2016</u> and supplementary guidance.

11. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only

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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.

12. Our Annual Audit Report contains an agreed action plan at <u>Appendix 1</u> which sets out specific recommendations and identifies responsible officers together with agreed dates for implementation. It also includes any outstanding actions from last year and progress against these.

13. We comply with the Financial Reporting Council's Ethical Standard and we have not undertaken any non-audit related services during 2018/19. Therefore, our audit fee of $\pounds 0.392$ million, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to the Board and the Auditor General for Scotland and will be published on Audit Scotland's website <u>www.audit-scotland.gov.uk</u> in due course.

15. We would like to thank management and staff for their cooperation and assistance during the audit.

Part 1 Audit of 2018/19 annual report and accounts



Main judgements

NHS Greater Glasgow and Clyde's financial statements give a true and fair view and were properly prepared.

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

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

The Board's annual report and accounts are the principal public means of demonstrating its accountability for the stewardship of its resources as well as its performance in the use of those resources.

Audit opinions on the annual report and accounts

16. The annual report and accounts for the year ended 31 March 2019 were approved by the Board on 25 June 2019. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared;
- expenditure and income were regular and in accordance with applicable enactments and guidance; and
- 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.

17. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

18. We received the unaudited annual report and accounts of the Board on 13 May 2019, in line with our agreed audit timetable. The Board's group accounts including the financial results of the Endowment Fund and Integration Joint Boards (IJB's) within its area were not received until 14 June 2019. This was because a number of IJB's did not submit the required information to the Board by the agreed end of May deadline.

19. Additionally, the governance statement provided as part of the performance report was incomplete with significant elements outstanding. This included the disclosure of significant issues and the appropriate assurance statements from some directors. A complete governance statement was received on 3 June 2019.

Good practice confirms that the governance statement should be provided at the same time as the unaudited financial statements to ensure efficient year-end closedown and reporting arrangements and an effective and timely audit process.

20. Furthermore, the narrative sections of the annual report and accounts, including the performance report, required substantial change prior to a revised version being provided to us on 3 June 2019. There was no evidence that the initial draft of the annual report and accounts including the performance report had been subject to an effective quality assurance review prior to being submitted for audit. We recommend that officers introduce a comprehensive quality review prior to submitting the year-end reporting documents (performance and accountability report including annual governance statement and annual accounts) for audit, to minimise the number of changes required.

21. The working papers provided by the Board to support the accounts were to a good standard and the finance staff continued to deliver their high standards of professionalism and support to the audit team which helped ensure a smooth audit process.

Risks of material misstatement

22. <u>Appendix 2</u> provides a description of the risks of material misstatement identified during the audit planning process. It also summarises the work we have completed to gain assurance and mitigate these risks from an audit perspective.

23. We have no issues to report from our work on the areas identified within our Annual Audit Plan 2018/19 as a risk of material misstatement on the financial statements. Our Annual Audit Plan also identified risks from our wider code responsibilities including the need to deliver savings targets to ensure financial sustainability and the requirement to meet the Scottish Government's key performance targets. These are ongoing risks which the Board continues to manage. We have commented on these at parts 3 and 5 of this report and they are included in the action plan at Appendix <u>1</u>.

Materiality

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

25. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in Exhibit 2. With regards to the outcome of our work on the annual report and accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

26. On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations and minor changes were made to the materiality levels we reported in our Annual Audit Plan as reported at <u>Exhibit 2</u>. This had no impact on our audit approach.

Exhibit 2 Materiality values

Materiality level	As stated in the Annual Audit Plan	Revised amount
Overall materiality	£32 million	£34.040 million
Performance materiality	£16 million	£17.02 million
Reporting threshold	£0.250 million	£0.250 million
Source: Audit Scotland		

Significant findings from the audit in accordance with ISA 260

27. 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 covering accounting policies, accounting estimates and financial statements disclosures.

28. The significant findings are summarised in <u>Exhibit 3</u>. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in <u>Appendix 1</u> has been included.

Qualitative aspects of the audit

29. We have no significant findings to report around the qualitative aspects of the accounts, including accounting policies, accounting estimates/judgements, significant financial statement disclosures, impact of uncertainties etc of the 2018/19 accounting practices.

Exhibit 3 Significant findings from the audit of the financial statements

Issue

1. Performance Report and Governance Statement

The performance and accountability report form an integral part of the accounts. The draft report provided on 13 May 2019 required a number of changes prior to a revised version being passed to audit on 3 June 2019. There was no evidence of the initial draft report having been reviewed prior to being passing to audit.

The governance statement provided as part of this report was incomplete with significant elements outstanding. This included the disclosure of significant issues and the appropriate assurance statements from some directors. The narrative contained within some assurance statements was restricted to yes/no answers and we would expect additional narrative to be provided by officers to provide evidence for the Chief Executive's review.

Resolution

We recommend that officers introduce a comprehensive quality review prior to submitting the year-end reporting documents (performance and accountability report including annual governance statement and annual accounts), for audit, to minimise the number of changes required.

(refer appendix 1, action plan)

Issue

2. RTA Income

The Board has obtained information for the claims submitted in relation to the Injury Recovery Scheme over the past two years. A database has been developed to record claims submitted and the outcome of any claims concluded. Revised guidance was issued during the year and the Board did not apply the new percentage split for the accrual of income to its calculation, resulting in an error of £136k which was amended.

Whilst the Board has made substantial progress in this area it has still not calculated a bad debt provision as outlined in within the guidance.

Resolution

The Board should continue the work it is undertaking in this area and fully adopt the guidance issued by the Department of Works and Pension by establishing a bad debt provision.



Recommendation 2

(refer appendix 1, action plan)

3. Debt write off

It is normal practice for the Board to write off debts which are deemed irrecoverable. In 2017/18 we noted that no debts were written off and we were informed that some of the overseas patient debt would be written off in 2018/19. We established that this debt was appropriately written off this year although the approval for this was received from Scottish Government in 2017/18.

However, we also noted that 4 debts were written off this year prior to receiving Scottish Government approval. The Audit and Risk Committee approved this debt write off on 4 June 2019 and approval is now being sought from Scottish Government.

4. Untaken leave accrual

The untaken leave accrual is based on the untaken leave position as at 31 March 2018. No exercise was undertaken this year to quantify the untaken leave as at 31 March 2019.

5. Clinical Medical Claims and CNORIS provision

Several health boards calculate the structured settlement element of the provision for future medical negligence payments on a future cash basis that does not include any projected increase as a result of the difference between RPI rate and the general discount rate which is incorrect.

Although NHS GGC does not adopt this approach the overall CNORIS scheme liability for Scotland is understated. This has resulted in a redistribution of the overall liability to NHS boards in Scotland which, in turn, has resulted in an increase of £1.647 million to NHS GGC's share of the CNORIS liability of NHS Scotland. As any movements in the Board's share of the CNORIS liability is covered by AME funding this issue has no impact on the reported outturn position of the Board.

6. Deferred Income – Research and Development Contracts

The Board's 2018/19 trade payables balance includes an amount for deferred income, which is defined in the health A51483446

The Board should ensure that all write offs are recorded in the correct accounting year. Approval should be sought from Scottish Government as a matter of urgency for this year's debt write off.



El Recommendation 3 (refer appendix 1, action plan)

The Board should establish a more definitive process for establishing the untaken leave position at the end of each financial year.

Recommendation 4 (refer appendix 1, action plan)

As this issue has no impact on the reported outturn position we have included this as a non adjusted error in Appendix 3.

The Board should undertake a review of its deferred income on a project by project basis to demonstrate how each scheme

Issue	Resolution
board accounts manual as an obligation where a future service is required to be performed before the income can be recognised.	complies with the requirements of IFRS 15.
Most of the deferred income balance relates to research and development contracts. The Board has not yet fully reviewed the deferred income balance to assess its compliance with the requirements of the newly implemented International Financial Reporting Standard (IFRS) 15.	(refer appendix 1, action plan)

Source: Audit Scotland

How we evaluate misstatements

30. There were no material adjustments to the unaudited annual report and accounts arising from our audit. Two other mis-statements, including FHS accruals as detailed in Appendix 3, were identified which were not processed through the financial statements and these have been classified as unadjusted errors. The table at Appendix 3 reflects the late emerging adjustment of £0.578 million relating to one IJB which was identified on 24 June.

31. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements.

Data analytics

32. In 2018/19 we used data analytics in NHS Greater Glasgow and Clyde as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as *"the science and art of discovering and analysing patterns, deviations and inconsistencies…. in the data underlying…. an audit …. for the purpose of planning and performing the audit".* Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

33. We used data analytics when undertaking sample testing for expenditure and income testing although this process still needs some refinement for use at NHS Greater Glasgow and Clyde.

Follow up of prior year recommendations

34. The Board has made limited progress in fully implementing our prior year audit recommendations. Some progress has been made in two areas and the other five are still relevant and will be monitored on an ongoing basis. For actions not yet fully implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

Part 2 Financial management



Main judgements

NHS Greater Glasgow and Clyde (the Board) met all its financial targets for 2018/19 and achieved an underspend of £0.339 million against its Revenue Resource Limit for the year. This is set in context against the overall savings requirement for the Board of £93 million for 2018/19.

The Board has appropriate and effective financial management arrangements in place and has established robust arrangements to identify and monitor financial savings through its Financial Improvement Programme (FIP).

Additionally, the Board has adequate systems of internal control in place to underpin the delivery of the savings programme and to support the day-to-day financial management of the organisation. These same systems enable the production of clear financial monitoring reports as well as the year-end financial statements. Our testing of key controls confirms that they operated effectively during 2018/19.

Effective financial management is the result of appropriate financial capacity, sound budgetary processes, a robust control environment and the effective operation of internal controls. These are the guiding principles by which we assess the Board's financial management.

Financial performance in 2018/19

35. NHS Greater Glasgow and Clyde, as required by statute, has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD) annually. As illustrated in Exhibit 4, the Board met all of its key financial targets during 2018/19.

Exhibit 4

Performance against resource limits in 2018/19

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	2,404.664	2,404.325	0.339
Non-core revenue resource limit	102.153	102.153	0
Total revenue resource limit	2,506.817	2,506.478	0.339
Core capital resource limit	42.735	42.674	61
Non-core capital resource limit	11.174	11.174	0
Total capital resource limit	53.909	53.848	61

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Cash requirement	2,591.206	2,591.206	0
Source: NHS Greater Glasgow and Clyde Annual Repo	ort and Accounts 2018/19		

Underspend against Revenue Resource Limit (RRL)

36. NHS Greater Glasgow and Clyde achieved an underspend of £0.339 million against its total revenue resource limit of £2,506.817 million. This outturn is positive considering the 2018/19 Financial Plan detailed that it had to make £93 million of efficiency savings with unidentified savings of £29 million at the start of the financial year.

37. The Finance and Planning committee received reports on the financial position and forecast outturn projections throughout the year. The Board closed the forecast financial gap after relying on a number of short term measures and emerging outturns, including land sale proceeds, a capital to revenue transfer, an underspend against budgeted capital charges and increased accrued income recognition in relation to the road traffic accident income after improving the recording of information within this area.

Capital Resource Limit (CRL)

38. NHS Greater Glasgow and Clyde received a total capital allocation of £53.909 million in 2018/19. This consisted of £42.735 million core allocation, which was underspent by £61k and £11.174 million non-core capital resource limit which was fully utilised.

39. The capital allocation was spent on new build projects, building refurbishments, medical equipment including the replacement of diagnostic imaging and radiotherapy equipment and e-Health equipment.

40. During 2018/19, the Scottish Government agreed a transfer of £12.2 million capital allocation to revenue. This is an increase on the prior year capital to revenue transfer of £10 million and represents a significant proportion of the original capital allocation.

41. The allocation transfer funded £2 million revenue spend on capital projects and optimised the overall year-end financial outturn by £10.2 million. A significant proportion of the transfer represents the forecast unallocated capital balance at the year end, including forecast slippage. Whilst the Board has re-provided the budget for previously approved capital projects to ensure the projects remain fully funded, there is an opportunity cost in the Board failing to utilise their full capital budget.

Efficiency savings

42. NHS Greater Glasgow and Clyde was required to make efficiency savings of £93 million in 2018/19. This is equivalent to a savings target of 3.7% against the total revenue resource limit. Whilst this target was a reduction from the prior year, it continues a period of significant savings being required annually as identified in Exhibit 5.

43. Savings of £37.2 million were achieved on a recurring basis, with the remaining £55.8 million on a non-recurrent basis. Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years.

44. The proportion of savings achieved recurrently has remained broadly consistent over the past four to five years. However, the Board's reliance on non-recurrent savings continues to increase to the point at which over the last two years the proportion of savings achieved non-recurrently was greater than the recurrent level of savings This position is not sustainable in the medium and longer term as it requires the Board to increase the amount of recurring savings required in future years to enable a break even position to be achieved.

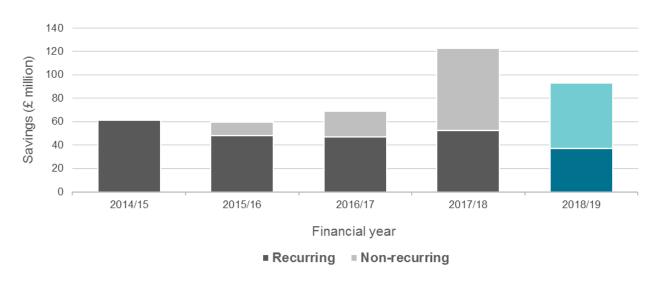


Exhibit 5 Savings – recurring and non-recurring

Source: NHS Greater Glasgow and Clyde Annual Accounts 2014/15 - 2018/19

Funding allocations

45. NHS bodies receive allocation letters throughout the year outlining the funding they will receive. As part of our financial statements audit we reviewed the final allocation letter and selected a sample of specific allocations to review in more detail. Finance officers provided detailed explanations and supporting schedules to outline what the funding related to, the basis of the funding and how the allocated funds were utilised. From the allocations reviewed we are satisfied that funding allocations have been accounted for appropriately and within the correct financial year.

Budgetary processes

46. Senior management and non-executive Board members receive regular and accurate information reporting the organisations financial performance. The Board has good arrangements for setting its budget, and we consider the underlying assumptions applied when setting the budget to be reasonable.

47. NHS Greater Glasgow and Clyde has appropriate budget setting and monitoring arrangements that allow both non-executive Board members and officers to carry out scrutiny of the organisation's finances. This includes information relating to directorate budgets, cost pressures and the financial improvement programme tracker which outlines the full and current year effect on saving initiatives.

Systems of internal control

48. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial $\frac{A51483446}{A51483446}$

statements. Our objective is to gain assurance that NHS Greater Glasgow and Clyde has sound systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

49. Our findings from the review of systems of internal controls were included in the management letter presented to the Audit and Risk Committee on 12 March 2019. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Greater Glasgow and Clyde's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Capacity of Finance

50. The Board has experienced a number of staffing changes within the finance function over recent years as members of the team have moved posts or left the organisation. A number of these posts have not been filled. Additionally, there are staff within the department planning for retirement within the next year or so. These changes have impacted upon officers involvement in the preparation of the financial statements and subsequent audit process. Although temporary measures have been put in place this is not a sustainable solution. The Board should review roles and structures to ensure the finance department has sufficient capacity and capability going forward and that realistic and appropriate succession plans are inplace to mitigate the impact of staff leaving the team.



Recommendation 6

Take steps to ensure that the finance function is appropriately resourced with experienced, skilled and knowledgeable staff with appropriate succession plans in place.

Internal audit

51. The Board appointed Scott Moncrieff as its internal auditors from 2018/19 on a three year contract. The finalisation of the internal audit plan was concluded over the first half of the financial year. The plan was delivered, albeit with a high proportion of the work being undertaken within the second half of 2018/19. Scott Moncrieff have concluded their 2018/19 audit work and presented their Annual Audit Report at the Audit and Risk Committee meeting on 18 June 2019.

52. We reviewed the Board's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. We have used the work of internal audit in the following areas for our 2018/19 audit:

- Payroll;
- Financial systems health check; and
- Financial Improvement Programme.

Standards of conduct for prevention and detection of fraud and error

53. NHS Greater Glasgow and Clyde is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. It is also responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

54. We have reviewed the arrangements in place to maintain standards of conduct including the Standing Financial Instructions, Standing Orders, Code of Conduct for members and staff and whistle blowing arrangements. The Standing Orders include the fraud policy as an appendix and provides guidance to employees on what action to take when fraud, theft or corruption is suspected. The Board has a formal partnership with NHS Scotland Counter Fraud Services (CFS). These arrangements include the Fraud Liaison Officer circulating reports to appropriate managers and to the Audit and Risk Committee. Reports from CFS highlighting any referrals from NHS Greater Glasgow and Clyde are presented to each meeting of the Audit and Risk Committee.

55. The Board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

National Fraud Initiative

56. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'data matches' that might suggest the existence of fraud or irregularity.

57. NHS Greater Glasgow and Clyde submitted its payroll and creditors data in accordance with the required timetable. The Board received a total of 10,561 matches. The 947 payroll matches are stratified on a risk basis and are categorised as follows:

- high risk (58 matches) i.e. some significant potential fraud factors identified;
- medium risk (254 matches) i.e. some potential fraud risk factions identified;
- low risk (362 matches) i.e. few potential fraud risk factors identified; and
- Nil risk (273) i.e. no fraud risk factors identified.

58. We have reviewed the NFI website and noted progress particularly with regard to the review of the creditors matches. At the time of preparing our report, 3,755 matches have been reviewed and cleared and a further 32 matches are being investigated.

59. The results of NFI activity are reported regularly to the Audit and Risk Committee by the Head of Financial Governance.

Shared systems

60. 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.

61. As your external auditor we have considered the content of the service auditor assurance report, and any associated external audit report. There are no significant findings to draw to your attention.

Dependency on key suppliers

62. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. It is essential that public sector organisations remain alert to the risks of key supplier failure and underperformance in suppliers that are experiencing difficult trading conditions.

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63.We reviewed the Board's arrangements around key suppliers and noted measures in place to mitigate risks. For contracts the Board procures locally, a three year tendering process is in place, which results in the regular refreshing of suppliers and mitigates risks around long term contracts.

64. Finance and procurement staff have established arrangements in place around sharing information on key supplier aged invoice reports. This allows for the early identification of any supplier payment issues and enables action to be taken to avoid any supplies being upheld due to payment glitches.

65. The Board's procurement function holds key supplier management meetings with suppliers using a standard agenda to review and assess risk. The frequency of these meetings is determined by the risk ratings attributed to the supplier.

66. At the time of our review we noted that key supplier management meetings had not taken place as regularly as planned during the year due to resourcing issues. We understand that these have now been addressed and meetings are taking place as scheduled. We will review progress in this area during 2019/20.

Part 3 Financial sustainability



Main judgements

NHS Greater Glasgow and Clyde has appropriate and effective planning arrangements to identify and mitigate risks to the ongoing financial sustainability of the organisation. These arrangements are based around the Board's three year Financial Plan which provides the strategic framework for its Annual Operational Plan (AOP). The Board has also developed its FIP to sit alongside the three year Financial Plan which provides the strategic framework for the annual cost improvement/efficiency programme.

The FIP aims to deliver organisation wide and centrally driven savings and efficiency initiatives. As we noted previously, the Board achieved its £93 million savings target for 2018/19 and successfully reduced its underlying recurring deficit from £67.8 million to around £50 million. However, the Board relied on substantial non-recurring savings and a sizeable capital to revenue transfer to achieve financial balance in 2018/19.

The Board recognises that such reliance on non-recurring savings and efficiencies is not a sustainable solution to the financial challenge going forward and the financial plan for the current year (2019/20) details a reduction in the current level of non-recurring savings.

In the short to medium term the Board has identified an overall savings target of £296 million over the three year period from 2019/20 to 2021/22. To-date plans have been identified to deliver £134 million of savings/efficiencies over the same period, leaving an unidentified savings target of £135 million still to be addressed. The FIP is fundamental to the identification of the required savings to bridge the £135 million gap and to ensure the robust and timely delivery of the savings plans already identified.

Looking in the medium to longer term, the achievement of recurring financial balance will require a whole service redesign approach that currently forms the basis of the Moving Forward Together programme. The delivery of Moving Forward Together presents a significant challenge that will, in all likelihood, require the Board to take difficult decisions and which the Board recognises it cannot deliver in isolation. Successful partnership working is fundamental to the successful delivery of Moving Forward Together.

Financial sustainability looks forward to the medium and longer term to consider whether the board has effective and robust planning arrangements in place to ensure the continued delivery of services and the manner in which they are provided.

Changing landscape for public financial management and medium to long term financial planning

67. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy A51483446

choices but also means that the Scottish budget is subject to greater uncertainty and complexity.

68. A new Scottish budget process has been introduced, which is based on a yearround continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

69. The Scottish Government has introduced new arrangements from 2019/20 with NHS Boards required to set out plans to deliver a breakeven position over a three-year planning period rather than a one-year basis, with flexibility to report over or underspends of up to 1% of the Board's core revenue resource funding in-year.

Financial planning

70. From 2019/20 NHS bodies in Scotland are required to produce an Annual Operational Plan to provide assurance on the whole system planning process over the three year period from 2019/20 to 2021/22. The 2019/20 should be a detailed plan aligned to the organisations annual budget and future year plans will be more high level indicating the direction of travel.

71. NHS Greater Glasgow and Clyde's Annual Operational Plan for 2019/20 sets out how the Board will deliver expected levels of operational performance on waiting times, investment in mental health and greater progress and pace in integration of health and social care. The plan outlines current performance levels and highlights remaining challenges; however, it highlights that sustained improvement in some areas will require additional recurrent funding to increase capacity.

72. The draft financial plan was presented to the Finance and Planning Committee in April 2019 with the Board due to approve the final plan in June. The plan has been developed on the assumption that the Board will aim to deliver a break even position each year within the three year plan period. These forecasts are based on a set of assumptions for allocation uplifts, inflationary costs and pay growth.

73. The plan outlines high level financial projections over a three year period. The total projected financial challenge over the period is £269.1 million. Achievable savings of around 40% are projected annually and this is based on 2017/18 and 2018/19 levels. The plan includes an estimated £10 million of non-recurring funding annually but recognises this as a prudent estimate. As outlined in Exhibit 6, the draft financial plan currently does not achieve a break-even position in any individual year or over the three year life of the plan.

Exhibit 6 Savings forecast 2019/20 to 2021/22

	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m
Financial challenge	74.8	92.6	101.7	296.1
Forecast savings achievable (%)	30 (40%)	38 (41%)	36 (36%)	104 (35%)
Recurring deficit	(44.8)	(54.6)	(65.7)	(165.1)
Non-recurrent outturn	10	10	10	30

	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m
Forecast outturn	(34.8)	(44.6)	(55.7)	(135.1)

Source: NHS Greater Glasgow and Clyde 2019-20 Initial Draft Financial Plan

74. Achieving financial balance in the short to medium term and addressing the financial challenge outlines in Exhibit 6 above is entirely dependent on the successful delivery of the FIP and external cost containment measures. Looking from the medium to longer term the achievement of recurring financial balance will require a whole service redesign approach that is currently set out within the Moving Forward Together programme and is heavily dependent on joined up regional planning.

Medium to long term efficiency savings

75. As previously noted, NHS Greater Glasgow and Clyde achieved its efficiency savings target in 2018/19, albeit with \pounds 55.8 million from non-recurring sources. The Board's underlying recurring deficit has reduced during 2018/19 from \pounds 67.8 million to \pounds 50 million.

76. The Board's Financial Improvement Programme has continued to develop over the past year with the aim of delivering an organisation wide and centrally driven saving and efficiency initiative. To facilitate this approach, the Board secured temporary external support during the year, which has now ended. The Financial Improvement Programme will now be taken forward by Senior Finance Management and the Programme Management Office.

77. A key change within 2019/20 is the removal of monetary targets from the productivity and efficiency initiatives. These will now be reported separately from the Financial Improvement Programme savings workstreams and will instead focus on improving performance in line with waiting time trajectories set out in the Scottish Government 30 month plan.

78. Saving targets equating to 4% of divisional or directorate budgets have been assigned across the organisation for 2018/19. Each directorate is expected to identify savings schemes either locally or through the Financial Improvement Programme workstreams to this level. The draft financial plan outlined that the Financial Improvement Programme tracker includes projects with a full year efficiency saving of £10 million.



Develop detailed, risk assessed, savings plans to articulate how the target 2019/20 savings requirement of £74.8m will be achieved. Take steps to ensure ownership, responsibility and accountability for these plans across all levels within the organisation including appropriate monitoring, management and reporting arrangements at the Board, executive and directorate level

79. The Board's Financial Plan sets out the savings requirements over a three year period. The Board do not include financial projections or savings requirements over a medium to long term period. Challenges exist for predicting a longer term financial position due to uncertainty around, for example, EU withdrawal and the

arrival of new financial powers. The Board needs to do more to plan for these events including scenario planning or modelling, together with identifying the necessary efficiency savings required to break even over the medium to longer term.

Recommendation 8

Undertake scenario planning and associated financial modelling where the impact of known future events cannot be predicted with certainty.



Recommendation 9

Prepare medium to longer term efficiency savings requirements based on key financial assumptions about future funding and costs and the "most likely outcome" scenario planning model for uncertain events.

80. While the funding gap for the next three years has been identified, savings options to meet this gap have not yet been fully developed. In determining the options for future savings plans it is incumbent upon the Board to recognise that such strategies will also need to fit with the plans of its partners in the local public sector economy. Therefore, the Board will need to work closely with all partners as it seeks to develop its approach to achieving future savings and efficiency requirements and consideration should be given to finalising the financial plan prior to the start of the financial year.

Workforce planning

81. The Scottish Government published the Health and Social Care Delivery Plan in 2016 and prioritised the three main areas of better care, better health and better value. NHS Greater Glasgow and Clyde added a further priority to their corporate objectives, of 'Better Workplace' with an aim of supporting and empowering their workforce.

82. Within the 2018/19 Workforce Plan, NHS Greater Glasgow and Clyde acknowledged their ageing workforce and outlined recruitment challenges in several areas. Over the last 8 years, the number of staff aged over 50 has increased by 9.4%. The Board has initiatives in place to support staff including the Health Working Lives Strategy and the Working Longer Review and recommendations.

83. During 2018/19, the Board developed a refreshed campaign to recruit graduate nurses. A pro-active approach was taken to meeting students and promoting the Board. A 'One Stop Shop' interview process was followed and graduates had opportunities to speak to senior nursing staff and ask questions and find out more about the organisation.

84. The Board recruited 458 newly qualifies nurse graduates who will work across the Board. A refreshed induction programme was delivered and the recruitment exercise has addressed most of the nursing vacancies within the Board.

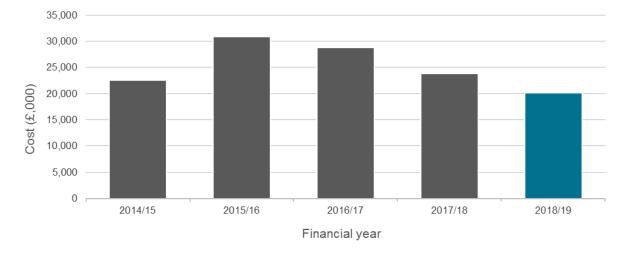


Exhibit 7 Temporary staff costs

Source: NHS Greater Glasgow and Clyde Annual Accounts 2014/15 - 2018/19

85. As demonstrated in Exhibit 7, the Board's temporary staffing costs have reduced for the third year running and are currently at their lowest level in a five year period. Senior officers have continued to exert robust financial monitoring arrangements and a number of cost containment measures have been actioned to help reduce temporary staff costs. Management contract arrangements have remained in place to oversee the appointment of locums and focus has been given to reducing junior medical agency spend.

86. Achievement of the national performance standard of 4% for sickness absence remains a challenge for NHS Greater Glasgow and Clyde, as it does for most health boards. The sickness absence rate was 5.5% at February 2019 compared to 5.4% for the comparable period last year. The Board is developing revised Attendance Management processes. This will clarify Human Resources and line managers roles and responsibilities and outline the support available to staff in managing their health.

EU Withdrawal

87. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services;
- Funding the extent to which potential changes to existing EU funding
 programmes are likely to affect the finances of public bodies and the activity
 that such funding supports; and
- Regulation the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

88. NHS Greater Glasgow and Clyde has considered the impact of each of these areas. The Board has participated in some national initiatives such as workforce surveys to determine the number of staff and areas that may be affected and have responded to operational readiness checklists from Scottish Government.

89. A Brexit Readiness Steering Group was established to address issues that may lead to risks to the organisation. The group is chaired by the Head of Board Administration and Corporate Governance and includes representation from workforce, procurement, pharmacy, resilience, finance and corporate inequalities.

90. A variety of risks have been identified and arrangements are underway to mitigate these, and other risks identified, where possible. Some risks, such as the impact of market turbulence and the resultant impact on the supply chain and availability and cost of medicines and equipment, cannot be quantified financially.

91. The Board is taking reasonable steps to prepare for the impact of EU withdrawal.

Good practice

92. As outlined at paragraph 85, the Board identified an opportunity to promote the Board as a future employer for graduate nurses to consider. This was achieved through early engagement and a refined recruitment campaign process. The new approach resulted in the successful recruitment of 458 graduates' nurses and addressed a high proportion of vacancies within the Board.

Part 4 Governance and transparency



Main judgements

The Board has appropriate and effective governance arrangements in place that support scrutiny of decisions made by the Board.

NHS Greater Glasgow and Clyde is open and transparent in the way it conducts its business and there is effective scrutiny of the financial and performance management process.

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

Governance arrangements

93. The Board and accountable officer are responsible for establishing arrangements for ensuring the proper conduct of affairs at NHS Greater Glasgow and Clyde and for monitoring the adequacy of these arrangements.

94. Throughout 2018/19 we reviewed a wide range of governance documents, minutes and agenda papers. We attended all Audit and Risk Committee meetings and we consider these operate effectively. We also regularly attend the Acute Services Committee and the Finance and Planning Committee. To further support our wider dimension audit work, we also attended some meetings of other standing committees.

95. We noted enhancements to the governance arrangements around committees. It is evident from a review of minutes that work has been undertaken to standardise the recording of minutes. This has resulted in minutes more accurately reflecting discussions taking place and articulating the committees conclusion or decision for all agenda items.

96. We observed a good level of scrutiny and challenge by members and it is evident that members are well prepared for meetings. A good working relationship exists between members and officers. Senior officers attend and present reports to all Board and committee meetings.

97. Members have a structured board seminar programme covering key areas of interest and importance. Members can request any additional information they require to support them in their role and can also suggest future seminar topics.

98. We did, however, note some challenges around agenda management, volume of papers and issuing of late papers.

99. The Board has appropriate governance arrangements in place and these arrangements provide a framework for effective organisational decision-making.

Openness and transparency

100. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.

101. There is evidence from a number of sources which demonstrates NHS Greater Glasgow and Clyde's commitment to transparency including the annual accountability review (where members of the public can attend). Additionally, Board meetings are open to the public.

102. While non-Board committee meetings are held in private, the minutes of these meetings are publicly available on the Board's website. The Board could consider the opportunity to hold committee meetings in public with sensitive or confidential items held in private session. Alternatively, the Board could further enhance transparency by making non-confidential committee papers public through its website.

103. Overall the Board conducts its business in an open and transparent manner but that there are some areas where the Board could improve current arrangements.

Performance report

104. In addition to the opinion on the performance report covered in Part 1 of this report, we also consider the qualitative aspects of the performance report. The purpose of a performance report is to provide information on a body, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of a body's performance and, is essential in helping stakeholders understand the financial statements.

105. The Performance Report should be structured in a way that allows a cohesive and clear narrative flow. Although the Financial Reporting Manual (FReM) identifies the requirements for a Performance Report as a list of bullets, a checklist approach is unlikely to achieve effective communication. NHS Greater Glasgow and Clyde's Performance Report provides an overview of the key events and issues during the year; however, it does not clearly signpost to the reader of the accounts the principal risks facing the organisation or the challenges going forward. We also consider that the report should be prepared earlier in the year-end reporting process.

Transparent reporting of financial and performance information

106. Each meeting of the Board receives a finance report and integrated performance report. Finance reports are also presented to the Finance and Planning Committee and Integrated Performance Reports to the Acute Services Committee.

107. The Finance Report provides information on current and projected financial position as well as highlighting financial challenges and pressures. The reports track the financial position from the start of the year through to year end projections. Whilst the performance reports note the status of key performance indicators, focus on areas for improvement and outline actions being taken by the Board to address performance issues.

108. The reports are transparent, timely and clear; and support effective scrutiny of the financial and performance management process. We are satisfied that this provides sufficient, but not excessive information, and that information reported is consistent with the year-end position. Our attendance at these meetings confirms that these reports are fully discussed and scrutinised.

Equalities

109. Public Bodies have a range of legal duties and responsibilities with regard to equality. The health board, like all other public bodies are required to meet the equalities duties as outlined within the Equality Act 2010.

110. The Board has an Equality Scheme, 'A Fairer NHS, NHSGGC' which covers the period 2016 to 2020. The scheme considers each equality outcome and identifies actions for improvement and mainstreaming. The planned activities are articulated alongside the measures required to take forward these actions.

111. Annual equality scheme monitoring reports are prepared outlining the work undertaken and actions achieved against the outcomes throughout the year. NHS Greater Glasgow and Clyde highlighted within their monitoring report some highlights including the completion of the equality and human rights e-learning module by 71% of the workforce, compared to less than 10% in the prior year and the review of interpreting services to promote consistency and maximise efficiencies across the service

Health and social care

112. There are six Integration Joint Boards (IJBs) within NHS Greater Glasgow and Clyde's catchment area and they became fully operational on 1 April 2016. The Board has good arrangements in place to identify all the financial transactions that relate to each IJB. It also has arrangements in place to agree its share of the IJB budgets and it provided each IJB with the appropriate financial information to enable them to monitor their financial budget.

113. Health Boards and Integration Authorities were required to agree a figure to cover the "set aside" sum for large hospital services to be included in their respective 2018/19 annual accounts. The Board and IJB have chosen to continue the transitional agreements for agreeing the set aside sum. Going forward into 2019/20, the set aside budget will continue on this transitional arrangement, however, the Board is awaiting guidance on the mechanism for fully implementing the set aside budget.

114. It is difficult to point to any shifts in spending (away from hospital care, toward the community) or improvements in performance resulting from the new structures; or to clearly identify particular actions that have led to improvements as there are many initiatives ongoing.

2020 Vision

115. In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 vision.

116. The Board's 2019-20 Annual Operational Plan (AOP) outlines how NHSGGC will deliver expected levels of operational performance to provide the foundations for delivering the Cabinet Secretary's priorities on waiting times improvement, investment in mental health and greater progress and pace in the integration of Health and Social Care. This has been developed in the context of national, regional and local priorities and builds upon the progress made during 2018-19 in both quality and access to services across NHSGGC and its six Health and Social Care Partnerships (HSCPs).

117. The 2019-20 AOP is set within the context of its longer term Transformational Strategy Programme, Moving Forward Together (MFT). The MFT Strategy sets out NHSGGC's vision for health and social care over the next 5-10 years. The aim of the Programme is to develop and deliver transformational change aligned to national policies and strategies including the national Health and Social Care

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Delivery Plan. The MFT programme emphasises quality and the need to deliver safe, effective, person-centred and sustainable care to meet the current and future needs of its population.

118. The MFT programme provides an overarching framework for change across community, primary and secondary care settings and is currently progressing programmes of work to deliver new models of care across health and social care. Six work streams are established and tasked with overseeing the development of delivery plans. These are multi-disciplinary teams co-chaired by an HSCP Chief Officer, a Service Clinician and an Acute Director. Each work stream has identified a schedule of priorities for 2019-20 and will be progressing work towards their implementation throughout the year.

Infection Control Reviews

119. During 2018/19, NHS Greater Glasgow and Clyde had three outbreaks of infection control in its hospitals. The Board implemented a number of actions in response to these outbreaks, including the establishment of Incident Management Teams.

120. In January 2019, an unannounced inspection was undertaken by Healthcare Inspection Scotland. The Board has developed an action plan to address the inspection findings. Further to this, the Cabinet Secretary has an external review of the Queen Elizabeth University Hospital. The findings from this review will be published in due course.

Value for money



Main judgements

NHS Greater Glasgow and Clyde has a clear performance management framework in place that supports the Board in its drive to deliver value for money and focusses attention on the organisations ambition to continuously improve service delivery. Our overall view is that the framework is generally effective but the opportunity exists to secure further meaningful improvements in its design and operation.

The Board experienced difficulties in meeting some of the Scottish Government key performance targets during 2018/19 and only fully achieved two out of the eight required measures. However, the Board delivered notable improvements in performance against revised trajectories agreed with the Scottish Government for endoscopy services, the treatment time guarantee and outpatients waiting time targets. It is essential that the Board builds on this success and seeks to transfer learning to those areas where performance has been slow to improve.

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

Best value

121. <u>*Ministerial guidance to Accountable Officers*</u> for public bodies and the <u>Scottish</u> <u>*Public Finance Manual*</u> (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value .

122. NHS Greater Glasgow and Clyde aim to embed best value across the organisation through a continual drive for improvement. This is demonstrated through the Moving Forward Together programme which aims to design a new system of care in the most effective way to provide safe, effective, person centred and sustainable care to meet the current and future needs of the population and to provide best value.

123. These ambitions will be achieved by redesigning the way services are delivered to ensure an efficient and sustainable model. The Board has taken an inclusive approach to the design of this programme with clinicians from acute services and primary care working together, along with patients, service users, the public and staff.

124. The Financial Improvement Programme runs alongside this and the Board has encouraged staff involvement across all levels of the organisation through various initiatives including 'small change matters' where staff were able to make suggestions for efficiencies or service redesign improvements within the areas they work.

Performance management

125. The Board is kept well informed of performance across all areas. Integrated performance reports are presented to each meeting of the Board and Acute A51483446

Services Committee. The detailed review and scrutiny of performance is delegated to the Acute Services Committee which meets bi-monthly.

126. The integrated performance reports contain a balanced scorecard showing all indicators. The indicators are presented under the four key themes of the 2018/19 Corporate Objectives – Better Care, Better Health, Better Value and Better Workplace. Performance measures within the reports include the 2018/19 Annual Operational Plan standards; critical Health and Social Care indicators and local key performance indicators of high profile.

127. Exception reports are included within the report for each measure where performance varies by greater than 5% from the target. Each exception report outlines current Board and national performance and will include graphical illustrations of performance across the past year. The narrative within the report provides context around the performance levels and each exception report outlines actions to address performance along with the timeline for improvement.

128. Throughout the year committee members receive supplementary reports on specific aspects of performance, namely waiting times and the financial position. These enable members to focus on key risks relating to access to treatments and financial sustainability.

129. Scott Moncrieff undertook a review of the Board's performance reporting and whilst it stated that performance management arrangements reflect good practice in many areas, there was scope for significant improvement in some areas including how performance against objectives is measured and reported. This is appropriately included within the Governance Statement as an area for improvement.

Overview of service performance

130. The Board's performance information, presented to the May Acute Services Committee, detailed performance against 35 separate measures, 22 of which were given a performance rating. These include key performance standards as reported in the 2018/19 annual accounts. Performance as at the end of March 2019 for the 22 measures given a performance rating is summarised Exhibit 9 which broadly shows an overall decline in the number of measures where the target performance has been met or is within acceptable standards

Exhibit 9 Overall performance against LDP standards



Source: NHSGGC Annual Report and Accounts; Integrated Performance Report, Acute Services Committee, May 2019

131. From 2018/19, the Scottish Government requires that NHS Boards should focus on the eight key standards that are most important to patients. It was expected that NHS boards will achieve as a minimum the March 2017 outturn position by March 2019. The eight key standards are:

- 62-day Cancer Wait
- 31-day Cancer Wait
- 12-week Outpatients Wait
- Diagnostics 42 day wait
- Treatment Time Guarantee
- Child & Adolescent Mental Health Services (CAMHS) within 18 weeks of referral
- Psychological Therapies within 18 weeks of referral
- Accident & Emergency Waiting Times within 4 hours.

132. Performance at March 2019 for each of the Scottish Government's key standards is provided at Exhibit 10, along with action being taken by the Board to address standards where NHS Greater Glasgow and Clyde is not meeting the national target.

Exhibit 10 Performance against key performance targets

Target/standard		nce at March rch 2018 in	Action being taken by Board	Direction of travel since March 2018
62 day cancer target Patients with a suspicion of cancer treated within 62 days	95%	7 7.2% (82.1%)	Recruitment agreed to key posts.	
		Scottish average March 2019: 79.9%	A revised cancer performance management process which includes weekly tracking meetings for all services and monthly cancer performance meetings to review performance, long waits, trends from breach reports and corrections actions required.	•
31 Day Cancer Wait Patients diagnosed with cancer who begin treatment within 31 days	95%	95.9% (93.6) Scottish average March 2019: 95.5%	N/A – performance exceeds the national target.	

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12 Week Outpatients Wait Patients wait time from referral to first outpatient appointment within 12 weeks	95%	 66.3% (74.5%) Revised trajectory: 23,180 patients Outturn: 20,485 patients Scottish average March 2019: 78.8% 	The Board are utilising patient focussed booking, referral triage and daily review of cancelled appointments to ensure full utilisation of capacity. Weekly and monthly outpatient booking reports are monitored to maximise productivity across services.	
Diagnostics Diagnostic 42 day wait for a range of endoscopy and radiology treatments	100%	 78.1% (At December 2018) Scottish average March 2019 84.0% 	Focus on patients with highest clinical need and longest wait. Additional Saturday sessions at Stobhill and Gartnavel General Hospital.	
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks TTG	100%	 69.7% Revised trajectory: 7,300 patients Outturn: 7.121 patients Scottish average March 2019: 71.9% 	Allocation of non recurring funding received from SG to support a range of improvement actions, internal waiting list initiatives, redesign and private sector capacity. Productivity improvement actions to ensure all theatre capacity is fully utilised. Work underway to produce waiting time improvement plan to secure long term improvement in performance.	
Accident & Emergency Waiting Times Proportion of patients waiting less than 4 hours from arrival to admission		 88.9% (86.7%) Scottish average March 2019: 89.3% 	Introduction of Allied Health Professionals in emergency departments at QEUH and Gartnavel General Hospital to ensure patients are directed to appropriate specialists. Introduction of emergency department redirection ensuring patients are signposted to appropriate alternatives to help reduce demand in emergency departments.	
Child & Adolescent Mental Health Services (CAMHS) Proportion of patients that were seen within 18 weeks of referral	90%	 79.2% (90.0%) (at February 2019) Scottish average March 2019: 77.6% 	Utilise Choice and Partnership Approach methodology to maximise efficiencies and reduce wait for treatment continues. Increase clinical capacity based on lean methodology.	

Work is ongoing to reduce

			rejected referrals.
Psychological Therapies	90%	91.2%	N/A – performance exceeds
Proportion of patients that were seen (91.9%)	(91.9%)	the national target.	
within 18 weeks of referral		Scottish averag March 2019: 77.7%	e
Source: NHSCCC Acute Services Integrated	Porformanco	Poport May 2010	

Source: NHSGGC Acute Services Integrated Performance Report May 2019;

NHSGGC Integrated Performance Report Board April 2019.

133. During 2018/19 the Board received £20.1 million of non-recurring funding to support waiting time list reductions. The funding enabled short term increased capacity and supported the Board in achieving revised performance trajectories agreed with the Scottish Government in endoscopy, treatment time guaranteed and outpatients. Trajectories have been developed to March 2020 to show how waiting times will be reduced. However, the Board is in discussion with Scottish Government regarding 2019/20 funding.

134. An investment schedule to March 2020 has been submitted and outlines several performance commitments. Short to medium term plans include the use of additional locum consultants and waiting list initiatives, whilst long term planning and delivery is supported by demand and capacity analysis.

135. It is a challenge for the Board to meet all targets while operating within financial settlements which require savings to be achieved. We have concluded that the Board has good arrangements for monitoring targeted performance issues. However, we recognise that the Board has only met two of the eight targets and that meeting the waiting time targets is a significant challenge.

Recommendation 10

Learn the lessons from measures already implemented to improve performance in key waiting time targets to place greater emphasis on getting closer to the target and national averages for Treatment Time Guarantees, 12 week Outpatient Wait, Diagnostics, and 62-day Cancer Wait times.

National performance audit reports

136. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 a number of reports were published which are of direct interest to the Board and are highlighted in <u>Appendix 4</u>.

137. The Board has processes in place to ensure national performance reports and their impact on the Board are considered by the Audit and Risk Committee or an appropriate governance committee.

Appendix 1 Action plan 2018/19



No. Issue/risk

1 Performance Report and Governance Statement

The performance and accountability report form an integral part of the accounts. The draft report provided on 13 May 2019 required substantial changes prior to a revised version being passed to audit on 3 June 2019. There was no evidence of the initial draft report having been reviewed prior to being passing to audit.

The governance statement provided as part of this report was also incomplete with significant elements outstanding. This included the disclosure of significant issues and the appropriate assurance statements from some directors. The narrative contained within some assurance statements was restricted to yes/no answers and we would expect additional narrative to be provided by officers to provide evidence for the Chief Executive's review.

Risk - The audit is delayed due to the absence of comprehensive complete reports within the annual accounts audit package.

2 RTA Income

There is no bad debt provision nor bad debt write off as recommended by the guidance. The Board should ensure it fully adopts the guidance issued by the Department of Work and Pension.

Recommendation

quality review prior to

reporting documents

(performance and

changes required.

ISA 260 Finding 1

submitting the year-end

We recommend that officers

introduce a comprehensive

accountability report including

annual governance statement

to minimise the number of

and annual accounts) for audit,

ISA 260 Finding 2



Agreed management action/timing

The process of collating the assurance statements is always a challenge in an organisation of this size. The large majority were completed along with the Annual Accounts.

The finance team will undergo a restructure in 2019/20 and the drafting and checking of the Performance and Accountability Report, and the Governance Statement, will be completed differently.

Responsible officer Director of Finance Agreed date

31 March 2020

This will be completed as part of the 2019/20 year end process.

Responsible officer

Director of Finance

Agreed date

Risk – The RTA position within the financial statements may be mis-stated.

3 Debt write off

We noted last year that no debts were written off and were informed that overseas patient debt would be written off in 2018/19. We established that this debt was written off but that approval for this was received from Scottish Government in 2017/18.

We also noted that 4 debts were written off this year prior to receiving Scottish Government approval. The Audit and Risk Committee approved this write off on 4 June and approval is now being sought from Scottish Government.

Risk – The annual accounts may be mis-stated and the Board may not be complying with SG guidance. The Board should ensure that all write offs are recorded in the correct accounting year. Timeous approval should be sought from Scottish Government on write offs above the specified limit.

ISA 260 Finding 3

This will be completed as part of the 2019/20 year end process.

Responsible officer

31 March 2020.

Assistant Director of Finance – Financial Services

Agreed date

31st March 2020.

taken leave accrual e untaken leave accrual is sed on the untaken leave sition as at 31 March 2018. e exercise was undertaken s year to quantify the	The Board should establish a more definitive process for establishing the untaken leave position at the end of each financial year.	Whilst there is no material difference year on year, this will be completed as part of the 2019/20 year end process. Responsible officer
taken leave as at 31 March 19. sk – The accounts could be s-stated.	ISA 260 Finding 4	Assistant Director of Finance – Financial Services Agreed date 31 st March 2020.
ferred Income – Research d Development Contracts e Board's 2018/19 trade yables balance includes an nount for deferred income, e majority of which relates to search and development intracts. The Board has not ovided evidence that the ferred income balance is in herence with the guidance intained in IFRS 15. sk – The Board's accounts ay be mis-stated.	The Board should undertake a review of its deferred income on a project by project basis to demonstrate how each scheme complies with the requirements of IFRS 15. ISA 260 Finding 5	The Board's finance team believe the Boards accounting treatment is correct and in accordance with other NHS Boards and IFRS 15. However, we will continue dialogue with Audit Scotland through 2019/20. Assistant Director of Finance – Financial Services Agreed date 31 st March 2020.
pacity of Finance e finance function has perienced staffing changes er the past year which 146	The Board should take steps to ensure that the finance function is appropriately resourced with experienced, skilled and knowledgeable	As outlined above, the finance team will undergo a restructure in 2019/20. This will address the recent departures and
	 aken leave as at 31 March 9. k – The accounts could be -stated. Ferred Income – Research 1 Development Contracts a Board's 2018/19 trade rables balance includes an ount for deferred income, majority of which relates to earch and development tracts. The Board has not vided evidence that the erred income balance is in the rence with the guidance tained in IFRS 15. k – The Board's accounts y be mis-stated. 	aken leave as at 31 March 9.k - The accounts could be -stated.Ferred Income - Research I Development Contracts B Board's 2018/19 trade rables balance includes an ount for deferred income, majority of which relates to earch and development tracts. The Board has not vided evidence that the erred income balance is in herence with the guidance tained in IFRS 15.k - The Board's accounts y be mis-stated.b Coacity of Finance e finance function has ereinced staffing changes in the past year which

Appendix 1 Action plan 2018/19 37

prepare the team for

preparation of the financial planning arrangements are in impending retirals. statements. Temporary place. A draft structure is currently arrangements were Paragraph 50 under further review and established however longerdiscussion. term solutions are required. Responsible officer **Risk -** The finance function is not appropriately resourced in **Director of Finance** terms of experience and Agreed date knowledge, potentially leading to issues with financial 30th September 2019. management and accounts preparation. **Efficiency savings** 7 Develop detailed, risk The report fails to assessed, savings plans to acknowledge the extensive For 2019/20 the Board is articulate how the target work undertaken by the Board required to deliver savings of savings requirement of £74.8m in 2018/19 in establishing the £74.8 million. The Board has will be achieved. Take steps to **Financial Improvement** yet to identify how all the ensure ownership, Programme (FIP), supported savings will be achieved. responsibility and by a PMO. accountability for these plans Risk - the Board may not be This process, including the across all levels within the able to deliver the targeted extensive buy-in by organisation including savings in 2019/20 and management and staff across beyond. appropriate monitoring, the organisation, delivered management and reporting financial balance in 2018/19. arrangements at the Board. executive and directorate level. The FIP has been rolled forward into 2019/20. Paragraph 78 However, achieving recurring savings is becomg more difficult every year without impacting on service levels. Whilst the currently identified savings for 2019/20 are significantly short of the required target, we will endeavour to deliver in line with previous years. Responsible officer **Director of Finance** Agreed date 31st March 2020. 8 Medium to long term The Board should undertake As above for Issue/risk No.7. efficiency savings scenario planning and associated financial modelling The financial plan sets out the where the impact of known savings over a three year future events cannot be period. Consideration should predicted with certainty. be given to preparing medium to longer term efficiency Paragraph 79 savings targets. **Risk –** Savings requirements for the longer term may not be identified and achieved. 9 Medium to long term Prepare medium to longer As above for Issue/risk No.7. efficiency savings term efficiency savings requirements based on key The financial plan sets out the financial assumptions about A51483446

staff. Ensure succession

affected officers involved in the

period. Consideration should be given to preparing medium to longer term efficiency savings targets.

Risk – Savings requirements for the longer term may not be identified and achieved.

10 Overview of service performance

The Scottish Government has identified a number of performance standards that significantly impact on patients which boards have to focus on in 2019/20. The Board's performance against a number of these key standards has been in an adverse position during 2017/18.

Risk - Performance may not improve or may continue to deteriorate if not addressed.

future funding and costs and the "most likely outcome" scenario planning model for uncertain events.

Paragraph 80

Learn the lessons from measures already implemented to improve performance in key waiting time targets to place greater emphasis on getting closer to the target and national averages for Treatment Time Guarantees, 12 week Outpatient Wait, Diagnostics, and 62-day Cancer Wait times.

Paragraph 135

The Board is fully committed to improving performance and delivering on the targets outlined in the Scottish Governments Waiting Times Improvement Plan.

This commitment, including actions and trajectories, are outlined in the Boards Annual Operational Plan.

Responsible officer

Director of Finance

Agreed date

31st March 2020

Follow up of prior year recommendations

b/f 1 Consolidation of IJB Arrangements should be Accounts agreed well in advance with the six IJBs to ensure the The IJB accounts and flow of information will papers were not provided facilitate the timely within agreed timescales. certification of NHSGGC accounts. Risk The accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late. Accounts preparation and audit work are

The IJB accounts and papers were not provided within agreed timescales in 2018/19. Information received 6 June 2019.

b/f 2 Road Traffic Accident

The income accrual is not in line with guidance issued by the Department of Work and Pensions. There is no bad debt provision nor bad debt write off as recommended by the guidance.

put under additional pressure.

Risk

The RTA debtor position within the financial statements may be misstated. The Board should ensure that an appropriate process is in place for the recording of details processed in relation to the Injury Recovery Scheme. Progress has been made in this area but the Board has still to implement a bad debt provision.

Revised action: see action 2 above.

b/f 3 Debt Write off

Our review of the bad debt provision highlighted a A51483446 The Board should undertake an annual review of debts

Superseded: See action 3 above

	number of debts over three years old and there were also debts relating to overseas patients. We have been informed that some of the overseas patient debt will be written off in 2018/19. Risk The annual accounts may be mis-stated.	deemed to be irrecoverable and write off as appropriate.	
b/f 4	Capacity of finance function The finance function has experienced staffing changes over the past year which affected officers involved in the preparation of the financial statements. Temporary arrangements were established however longer-term solutions are required. Risk The finance function is not appropriately resourced in terms of experience and knowledge, potentially leading to issues with financial management and accounts preparation.	Review roles and structures within finance to ensure they meet current demands. Ensure succession planning arrangements are in place.	Superseded: See action 6 above. Responsible officer Revised date
b/f 5	Efficiency savings For 2018/19 the Board is required to deliver savings of £93 million. The Board has yet to identify how all the savings will be achieved. Risk The Board may not be able to deliver the targeted savings in 2018/19, and beyond.	The Board should ensure that savings plans are developed identifying how the £93 million of savings required will be delivered.	Superseded: See action 7 above.
b/f 6	Medium to long term efficiency savings The Annual Delivery Plan does not set out the savings requirement beyond 2018/19. Risk Savings requirements for the medium to longer term may not be identified and may not be achieved.	The Board should prepare medium to long term efficiency savings requirements based on its key financial assumptions about future funding and costs.	Superseded: See action 8 above.
b/f 7 	Overview of service performance 483446	The Board should review and monitor its investments	Superseded: See action 9 above.

The Scottish Government has identified a number of performance standards that significantly impact on patients which boards have to focus on in 2018/19. The Boards performance against a number of these key standards has been in an adverse position during 2017/18. designed to improve performance and determine

areas/specialities require

more detailed scrutiny or additional actions to be

whether specific

taken.

Risk

Performance may not improve or may continue to deteriorate if not addressed.

40 |

Appendix 2 Significant audit risks identified during planning

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

Audit risk

Assurance procedure

Results and conclusions

Risks of material misstatement in the financial statements

1	Management override of controls ISA 240 requires that audit	Detailed testing of journal entries. Review of accounting	No unusual or inappropriate transactions were identified as part of our detailed journal testing.
	risk of fraud, which is presumed	estimates. Focused testing of accruals and prepayments.	A review of accounting estimates did not show any evidence of bias.
	consideration of the risk of management override of controls to change the position disclosed in the financial	consideration of the risk of nanagement override ofEvaluation of significant transactions that are outside the normal course of business.	Focussed testing on accruals and prepayments did not identify any instances of management
	statements.	Substantive testing of transactions after the year end, to confirm expenditure and income have been accounted for in the correct year.	override of controls. Within substantive testing we considered whether transactions were within the normal course of business. When selecting samples, we reviewed ledger or transactions listings for any transaction that were outside the normal course of business.
			Substantive testing of transactions around the year end identified controls were operating effectively.
			Conclusion: We did not identify any incidents of management override of controls.
2	Risk of fraud over income NHS Greater Glasgow and Clyde receives a significant amount of income from several	Detailed testing of revenue transactions focusing on the areas of greatest risk. Obtain assurances from the	Detailed testing of revenue transactions confirmed these were normal business transactions and had been accounted for in the correct year.
	sources including Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.	NHS Scotland Counter Fraud Service.	Assurances were obtained from the findings of NHS Scotland Counter Fraud Service.
			Completion of the NFI questionnaire identified NHS Greater Glasgow and Clyde are progressing the investigation of

Αι	ıdit risk	Assurance procedure	Results and conclusions
			NFI matches in the current exercise.
			Conclusion: We did not identify any incidents of fraud over income.
3	Risk of fraud over expenditure Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is	Detailed testing of expenditure transactions focussing on the areas of greatest risk. Obtain assurances from the NHS Scotland Counter Fraud	Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year.
	more likely to occur in expenditure. NHS Greater Glasgow and Clyde incurs	Service.	Assurances were obtained from the findings of NHS Scotland Counter Fraud Service.
	significant expenditure on a range of activities which will require audit coverage.		Completion of the NFI questionnaire identified NHS Greater Glasgow and Clyde is progressing the investigation of NFI matches in the current exercise.
			Conclusion: We did not identify any incidents of fraud over income.
4	Estimation and judgements	Completion of 'review of the	Review of the work of an expert
	There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	Review of information provided by the Central Legal Office.	was completed for the professional valuer and the Central Legal Office which confirmed that assurances can be taken from their work.
			A review of the revaluations performed by the valuer identified these had been performed in a reasonable manner and had been correctly reflected in the financial statements.
			A review of the information provided by the Central Legal Office to support the provision clinical and medical legal claims and for CNORIS did not identify any issues and these have been correctly reflected in the financial statements.
			A review of other estimates and judgements did not show any evidence of bias and accounting policies were appropriate.
			Substantive testing undertaken on asset revaluation's, accruals and provisions as part of the financial statements audit.
	51483446		Conclusion: Estimations and judgements included in the financial statements are reasonable and supported by evidence.

Results and conclusions

provision nor bad debt write off

5	Integration Joint Boards In both 2016/17 and 2017/18, the IJB figures for incorporation into the NHS Greater Glasgow and Clyde group accounts were received later than planned. The Board should agree a timetable and approach for obtaining IJB figures for consolidation and assurances required for the group governance disclosures. There is a risk that the Board's accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late.	We shall seek assurances from the appointed external auditor at each IJB ad liaise as appropriate. We will obtain assurances from the Board's Director of Finance for the group governance disclosure. Specific group account testing will assess the appropriateness of consolidation transactions. We will review arrangements within the Board for gaining assurances throughout the year around IJB balances, budgets and performance.	Early discussions with officers confirmed the year end timetable for receipt of IJB information. Assurances were obtained from the appointed external auditor at each IJB. We held discussions with officers and reviewed the arrangements within the Board for recording and monitoring IJB budgets and performance during the year. We are completing specific group account testing on the consolidation transactions. The results of the IJBs were appropriately brought in to the Board's accounts. Conclusion: Whilst arrangements were in place for the receipt of the IJB accounts and working papers, the timing of this was significantly later than the agreed timescales.
6	Road Traffic Accident During 2016/17 new guidance was issued in relation to how RTA income should be reflected in the financial statements. In 2017/18, the Board recognised an accrual of income based on cash received for the last three months of the year rather than claims made. Furthermore, no corresponding bad debt provision or bad debt write off has been calculated although recommended by the guidance. The Board should ensure that an appropriate process is in place for the recording of details processed in relation to the Injury Recovery Scheme, otherwise there is a risk that income is misstated within the financial statements.	Early discussions with finance officers to determine what processes have been put in place to appropriately record claims pursued on the Board's behalf. Review of established processes. Substantive testing of the Board's RTA income and debtor figures and associated provisions.	Discussions with officers confirmed the arrangements in place for collecting claims information. During the financial statements audit, the processes established were reviewed and the calculations reviewed. The Board has obtained information for the claims submitted in relation to the Injury Recovery Scheme over the past two years. A database has been developed to record claims submitted and the outcome of any claims concluded. Revised guidance was issued during the year and the Board did not apply the new percentage split for accrual of income to their calculation, resulting in an error of £136k. The Board has still not calculated a bad debt provision as outlined in within the guidance. Conclusion: The Board has obtained reliable information regarding the Injury Recovery Scheme which it has used as the basis for the accrual of income. There is no bad debt

Assurance procedure

Audit risk

Audit risk

Assurance procedure

Results and conclusions

as recommended by the guidance.

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

7	Financial sustainability NHS Greater Glasgow and Clyde's financial plan for 2018/19 identified a savings requirement of £93 million. At month 6, the Board is projecting a year end £20 million deficit.	Monitor updates to the Financial Plan and the ongoing financial position. Review the monthly financial returns to the SGHSCD. Review the financial monitoring reports to the Board, acute services committee and finance and planning committee. Attendance at the Finance and Planning committee. Test a sample of transactions substantively before and after the year end to confirm expenditure and income has been accounted for in the correct financial year.	Reviewed the financial plan and relevant financial papers to monitor the ongoing financial position. Reviewed the monthly returns to the SGHSCD. Attended Finance and Planning committees. Reviewed financial monitoring reports presented to the Board and other standing committees. Discussions with finance officers to keep up to date with financial developments during the year. Reviewed a sample of pre- and post-year end transactions and confirmed that these were accounted for in the correct financial year. Conclusion: The Board achieved its savings requirement of £93 million, albeit with significant reliance on non-recurrent funds.
8	Financial Capacity Over the past year the Health Board has experienced staffing changes within the finance function. These changes affect officers involved in the preparation of the financial statements and the subsequent audit process. The Board should ensure that the finance function is appropriately resourced and that effective succession planning arrangements are in place. There is a risk that the finance department is not sufficiently resourced in terms of time, experience and knowledge to support the preparation of the financial statements.	We shall have early discussion with officers regarding the annual accounts timetable. Discussions will continue throughout the course of the audit. We will issue a working paper checklist to outline requirements and agree timescales for the receipt of unaudited accounts and working papers.	Discussions with officers regarding the annual accounts. Weekly meetings with finance officers throughout the audit process. A working paper checklist was issued in March 2019 outlining the requirements for the annual accounts working papers. Conclusion: The unaudited annual report and accounts along with supporting working papers were provided in line with agreed timescales. However substantial revisions were required to the unaudited accounts and we are aware of several vacancies within the finance function.
9	Performance The Board continues to face difficulties in achieving all its key performance targets. There is a risk that due to financial	Monitor the regular performance reporting to the board and committees. Attendance at the Acute Services Committee.	Reviewed the Integrated Performance Reports presented to the Board and Acute Services Committee.

Audit risk	Assurance procedure	Results and conclusions
pressures and competing priorities, performance targets are not met.		Attended Acute Services Committee.
		Conclusion: The Board continues to experience challenges in improving performance against a number of key performance targets.

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £0.250 million.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	CNORIS Provision				1,600k
	Expenditure (AME Funded)	1,600k			
	Income – AME Funding		1,600k		
	SORO			1,600k	
2	FHS Expenditure		816k		
	Trade payables			816k	
3	Investments in joint ventures			578k	
	Other reserves – joint ventures				578k
Net in	npact	1,600k	2,416k	2,994k	2,178k

Notes:

1. Entry 1 relates to the Board's increased share of CNORIS liability. The expenditure would be AME funded and therefore the impact on the reported outturn position would be nil.

2. Entry 2 relates to a year end over accrual of FHS cash limited expenditure which was included within the accounts. The FHS expenditure would reduce by £816k and therefore the impact on the reported outturn position would be increased savings against the RRL.

3. Entry 3 relates to an Other reserves- - joint ventures being understated by £578k

Appendix 4 Summary of national performance reports 2018/19



NHS relevant reports

Children and young people's mental health - September 2018

NHS in Scotland 2018 - October 2018

Health and social care integration: update on progress - November 2018

NHS Greater Glasgow and Clyde

2018/19 Annual Audit Report

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NHS Greater Glasgow and Clyde 2019/20 Annual Audit Report



Prepared for the Board of NHS Greater Glasgow and Clyde and the Auditor General for Scotland 30 September 2020

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Key messages

2019/20 annual report and accounts

- 1 The financial statements of NHS Greater Glasgow and Clyde give a true and fair view of the state of affairs of the health board as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.
- 2 The financial statements include an explanatory paragraph within Note 1 -Accounting Policies, describing the effect of material uncertainties, caused by Covid-19, as declared in the valuation report for land and buildings for the Health Board. This is a significant management disclosure in the financial statements that impacts on the users understanding of the accounts. We have included an Emphasis of Matter referring to this paragraph in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's report our opinion on the financial statements is not qualified in respect of this matter.
- **3** The timing of the impact of Covid-19 coincided with the financial year end. This led to significant challenges for the finance department to maintain financial services whilst completing year end accounts closedown processes and the financial statements preparation. We received the template version of the accounts by the revised date but the unaudited Performance and Accountability Reports were received later in the audit process. The opportunity exists for officers to review and refine its project management approach to the preparation and delivery of the reporting aspects of the Annual Accounts package.

Financial management

- 4 NHS Greater Glasgow and Clyde operated within its Revenue Resource Limit reporting an underspend of £0.238 million. This was in line with the three-year financial plan which aims to achieve financial balance each year.
- 5 The board has appropriate budget processes, but NHS Greater Glasgow and Clyde continues to rely on significant levels of non-recurrent savings to achieve in-year financial balance and the boards underlying deficit increased to £55 million at the end of 2019/20.

Financial sustainability

- 6 NHS Greater Glasgow and Clyde has a three-year, medium-term financial plan. This identifies a significant financial funding gap of £361.9 million over the next three years.
- 7 The board recognise that system wide transformation will be required to achieve medium to long term financial balance. The Moving Forward Together programme and the board's plans for re-mobilisation aim to deliver transformational change and service redesign. The longer the delay in implementing plans then the greater risk there will be that the plans are no longer sufficient to address the growing challenge.

8 The COVID-19 outbreak has had an impact on the short-term finances of NHS Greater Glasgow and Clyde. The impact of this in medium/longer term planning is currently being evaluated by the board.

Governance and transparency

- **9** NHS Greater Glasgow and Clyde has appropriate and effective governance arrangements in place. Changes in governance arrangements due to the impact of Covid-19 involved the temporary suspension of the standing committee structure and the establishment of an Interim Board in March 2020.
- **10**NHS Greater Glasgow and Clyde were escalated to Level 4 of the NHS Scotland Board Performance Escalation Framework in November 2019. This was initially in relation to infection prevention, management and control at the Queen Elizabeth University Hospital and Royal Hospital for Children and the associated communication and public engagement. This was then extended in January 2020 to include scheduled care, unscheduled care, primary care out of hours, finance, culture and leadership.

Value for money

- 11 NHS Greater Glasgow and Clyde has a clear performance management framework in place that supports the board in its drive to deliver value for money and focusses attention on the boards ambition to continuously improve.
- 12 The board continues to experience challenges in achieving key national performance targets. The COVID -19 pandemic led to routine elective work being suspended although we note that it was on track to meet its targets for elective and unscheduled care. However, the board achieved some performance standards and recognised improvements in performance against other standards. The board continues to demonstrate its commitment to service improvement through the development of improvement plans for the delivery of elective care.

Introduction

1. This report summarises the findings from our 2019/20 audit of NHS Greater Glasgow and Clyde (NHSGGC). The scope of our audit was set out in our Annual Audit Plan presented to the 10 December 2019 meeting of the Audit and Risk 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 <u>Code of Audit Practice 2016</u> as illustrated in <u>Exhibit 1</u>.



Source: Code of Audit Practice 2016

- 2. The main elements of our audit work in 2019/20 have been:
 - an audit of NHS Greater Glasgow and Clyde's 2019/20 annual report and accounts including the issue of an independent auditor's report setting out my opinions
 - a review of NHS Greater Glasgow and Clyde's key financial systems
 - consideration of the four audit dimensions

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, NHS Greater Glasgow and Clyde has had to respond to the global coronavirus pandemic. This impacted on the final month of the year and will continue to have significant impact into the 2020/21 financial year and beyond. This has had significant implications not least for the services it delivers, the costs of healthcare provision, sickness absence levels, and the suspension of non-essential projects and activities. Our planned audit work has had to adapt to new emerging

risks as they relate to the audit of the financial statements and the wider dimensions of audit. We also had to adapt to the audit team and certain members of the board working remotely.

Adding value through the audit

- 4. We add value to NHS Greater Glasgow and Clyde through the audit by:
 - Regular engagement with management to discuss any emerging issues (e.g. we had early dialogue with the Director of Finance around the accounting treatment for the untaken leave accrual). We also have regular contact with the Chair of the Board and the Chair of the Audit and Risk Committee.
 - 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 in our Annual Audit Report
 - sharing intelligence and good practice through our national reports (Appendix 4) and good practice guides.
 - regular attendance at the Audit and Risk Committee to participate in discussions and to respond to members queries

5. In so doing, we aim to help NHS Greater Glasgow and Clyde promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

6. NHS Greater Glasgow and Clyde 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. The board is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

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.

9. 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.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

11. 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.

12. 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

13. Auditors appointed by the Accounts Commission or Auditor General 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.

14. 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 2019/20 audit fee of £397,000, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

15. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website <u>www.audit-scotland.gov.uk</u> in due course.

16. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit particularly given the difficulties of auditing remotely during the pandemic.

Part 1 Audit of 2019/20 annual report and accounts



Main judgements

The financial statements of NHS Greater Glasgow and Clyde give a true and fair view of the state of affairs of the health board as at 31 March 2020 and of the net expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

The financial statements include an explanatory paragraph within Note 1 -Accounting Policies, describing the effect of material uncertainties, caused by Covid-19, as declared in the valuation report for land and buildings for the Health Board. This is a significant management disclosure in the financial statements that impacts on the users understanding of the accounts. We have included an Emphasis of Matter referring to this paragraph in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's report our opinion on the financial statements is not qualified in respect of this matter.

The timing of the impact of Covid-19 coincided with the financial year end. This led to significant challenges for the finance department to maintain financial services whilst completing year end accounts closedown processes and the financial statements preparation. We received the template version of the accounts by the revised date but the unaudited Performance and Accountability Reports were received later in the audit process. The opportunity exists for officers to review and refine its project management approach to the preparation and delivery of the reporting aspects of the Annual Accounts package.

The annual report and accounts are the principal means by which the Board accounts for the stewardship of resources and performance.

17. The board approved the Annual Report and Accounts for the year ended 31 March 2020 on 29 September 2020. As reported in the independent auditor's report:

- the financial statements of NHS Greater Glasgow and Clyde give a true and fair view of the state of affairs of the health board as at 31 March 2020 and of the net expenditure for the year then ended 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.

18. As detailed within paragraph 29 of the Accounting Policies within the financial statements, 'Key sources of judgement and estimation uncertainty', a material uncertainty, caused by Covid-19, has been declared in the valuation report for land and buildings. This is a significant management disclosure in the financial statements that impacts on the users understanding of the accounts. We have

included an Emphasis of Matter referring to this paragraph in our independent auditor's report on the financial statements. Although the Emphasis of Matter paragraph constitutes a modification to our independent auditor's opinion, our opinion on the financial statements is not qualified in respect of this matter.

19. The accounting framework was changed due to the Covid-19 pandemic. An addendum to the 2019/20 Government Financial Reporting Manual (FReM) was published by HM Treasury in May 2020. This allowed bodies to streamline their Annual Report and Accounts in response to the impact of Covid-19. NHS Greater Glasgow and Clyde decided not to take advantage of these streamlining options and instead prepared the Annual Report and Accounts as previously planned.

The annual report and accounts are due to be signed for the revised statutory deadline of 30 September

20. Scottish Government has actioned provisions within the Coronavirus (Scotland) Act 2020 to modify the Public Finance and Accountability (Scotland) Act 2000 for the financial year ending 31 March 2020 and have extended the administrative deadline for health accounts by 3 months. Therefore, the board is required to prepare its unaudited 2019/20 accounts by 31 August 2020 and to submit audited accounts by 30 September 2020. The legislative deadline for laying accounts in the Scottish Parliament remains at 31 December 2020.

21. The receipt of the unaudited Annual Report and Accounts at NHS Greater Glasgow and Clyde was delayed due to finance staff prioritising the Boards response to Covid-19. Senior finance officers actively engaged with us at an early stage to reschedule the audit timetable. Our Annual Audit Plan, presented to the Audit and Risk Committee on 10 December 2019, included an agreed timetable whereby NHS Greater Glasgow and Clyde would present the unaudited Annual Report and Accounts, and a complete set of working papers, to us by 11 May 2020.

22. Following our discussions, a revised date of 8 June 2020 was agreed for the receipt of the unaudited Annual Report and Accounts and working papers. The June Audit and Risk Committees was re-scheduled to September. The draft Annual Audit Report and proposed independent auditor's certificate was presented to the Audit and Risk Committee on 22nd September, and then to the Board meeting on the 29th September 2020.

23. The financial statements and working papers were received on the 8 June 2020, however, the Performance Report and Accountability Report were not provided until 16 July 2020. In the prior year, our annual audit report noted issues around the quality of these reports and we had recommended that officers introduce a comprehensive quality review prior to submitting the year-end reporting documents (Performance and Accountability Report including the Annual Governance Statement and Annual Accounts) for audit, to minimise the number of changes required.

24. Whilst quality review processes have been introduced, good practice arrangements would be for the narrative parts of the Annual Report and Accounts to be provided at the same time as the unaudited financial statements to ensure efficient year-end closedown and reporting arrangements and an effective and timely audit process. A project plan for the preparation and drafting of the performance and accountability reports was developed in January 2020 by finance and governance officers. The timescales within the plan were not delivered and this led to audit receiving these parts of the Annual Report and Accounts significantly later than planned. The project plan should be reviewed and refined to ensure it is realistic and project managed to ensure delivery within agreed timescales (Appendix 1 Recommendation 1).

25. Covid-19 presented us with unprecedented challenges such as the need to maintain audit quality whilst working fully off-site. The working papers provided by the Board to support the accounts were a good standard and the finance staff continued to deliver their high standards of professionalism and support to the

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audit team which helped ensure a smooth audit process. However, as part of our review of the Governance Statement, which forms part of the Accountability Report, we requested copies of the assurance statements which underpin the disclosures. Not all assurance statements were available or comprehensively completed for all Directors for 2019/20 (Appendix 1 Recommendation 2).

Overall materiality is £27 million

26. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

27. On receipt of the unaudited annual report and accounts we reviewed our assessment of materiality as summarised in Exhibit 2. This had no impact on our audit approach, and we remained focussed on the significant audit risks for the 2019/20 accounts.

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£27 million
	(£20 million)
Performance materiality	£16 million
	(£12 million)
Reporting threshold	£0.250 million
	(£0.2million)

Source: NHS Greater Glasgow and Clyde Annual Audit Plan 2019/20 (original figures in brackets)

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

28. <u>Appendix 2</u> 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 indicate how the efforts of the team were directed. <u>Appendix 2</u> also identifies the work we undertook to address these risks and our conclusions from this work. We have no issues to report from the work undertaken other than the additional risk relating to asset values as described in paragraph 18 above.

29. We have reported a number of issues relating to the main risks of material misstatement as set out below. These relate to the accounting treatment for research and development contracts, existence of assets and the preparation of the Performance Report and Accountability Report and are included in the action plan at <u>Appendix 1</u>.

Significant findings to report on the Annual Report and Accounts

30. 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. Where findings have resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included. The significant findings are summarised in Exhibit 3.

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Exhibit 3 Significant findings from the audit of the financial statements

Issue	Resolution	
1. Performance Report and Accountability Reports	Recommendation:	
The Performance and Accountability Reports form an integral part of the accounts. The draft reports were not provided as part of the financial statements package on 8 June 2020 due to being incomplete. The reports were provided to audit on 16 July 2020.	Review and refine the project plan for the delivery of the Performance Report and Accountability Report to ensure it is realistic. Apply project management principles to ensure the reports are delivered within agreed timescales and to the appropriate standard.	
	Recommendation 1 (refer <u>appendix 1</u> , action plan)	
2 Governance Statement	Directors should ensure that their	
The Governance Statement, which forms part of the Accountability Report, did not have all the assurance statements and certificates from Directors available for audit to review. The narrative contained within some assurance statements was restricted to yes/no answers and we would expect additional narrative to be provided by officers to	assurance statement and certificate are completed comprehensively, within the required timeframe and to appropriate quality standards for the Accountable Officers review and consideration prior to the drafting of the governance statement.	
provide evidence for the Chief Executive's review.	Recommendation 2 (refer appendix 1, action plan)	
3. Asset existence	Recommendation:	
Within the Annual Audit Plan, we identified a risk of material misstatement around the existence of assets. We noted that the arrangements in place within the board to inform the fixed asset team of disposals or changes in assets location or condition are inconsistent or not implemented. We also noted that limited asset verification work is completed within	Establish appropriate arrangements for the verification of assets. This includes establishing management responsibilities within departments for ownership of assets and the return of relevant documentation to the fixed asset team	

As part of our annual accounts work, we focussed our asset verification work on portable assets, as these assets are more likely to be moved around and therefore could be more difficult to locate. We decided to sample five portable assets from the fixed asset register to verify for existence. Two of the five assets selected have previously been disposed without notification being provided to the fixed asset team.

Furthermore, we reviewed the verification work undertaken by the fixed asset team. This process involves sending a list of assets from the fixed asset register to the relevant department to confirm that the assets are still operational within the board. This exercise is usually performed for four departments each year and generally has a very poor response rate. The example we reviewed for 2019/20 had no response despite being followed up by the fixed asset team.

Whilst the value of portable assets selected for review were not of material value to the accounts, the findings highlighted issues with the process in place for notifying finance of any changes to assets.

4. Internal Audit

the board.

Action already taken to resolve:

documentation to the fixed asset team within finance to ensure accounting records are complete.



As set out in our Annual Audit Plan, we planned to use the work of Internal Audit for payroll. We reviewed the detailed payroll work and identified an issue within the testing of employees leaving the board.

We discussed this issue with Internal Audit and outlined the need for further work to be undertaken to provide the necessary assurance for the Board. For our purposes we would have undertaken additional testing, which would have resulted in an additional fee for the Board, had internal audit not taken action to address the issue.

5. Deferred income

The board agreed last year to undertake a review of deferred income to ensure that it complies with the requirements of IFRS 15. Work has been ongoing on this during 2019/20 and whilst progress has been made there are areas which still require further work:

- There is no policy document or clear plan which demonstrates the utilisation of capacity building funding carried forward
- Whilst the net impact on the accounts may not be material, transactions are not being accounted for correctly. An example of this is income received for capacity building/board support services is not recognised until the project end rather than when received. The timing of these reconciliations and income distribution to external partners leads to an overstatement of the deferred liability.

6. Stock valuation

Officers were unable to undertake year end stock counts at most manual stock sites in March 2020 due to the Covid-19 pandemic. Where a stock count did not take place and no updated information was available, the prior year stock valuation was used. The inventory balance within the Statement of Financial Position includes prior year stock valuations of £11.5 million.

7. Restatement of set aside

The set aside calculation is a mechanism to reflect activities provided by the board which fall within the remit of the integration joint boards. Until this year, the set aside calculation has been based on historic data. Finance Officers have collected data based on actual expenditure and activity levels in the current and prior year and established a revised set aside calculation based on activity.

The revised set aside calculation and prior year comparator information, has been agreed with the Chief Finance Officers and will be reflected within the accounts of the six Integration Joint Boards within the NHS Greater Glasgow and Clyde area.

The unaudited accounts of NHS Greater Glasgow and Clyde reflected the prior year comparator set aside value of £132.5 million within the 2019/20 income and expenditure activity with integration joint boards in note 3 and 4 of the accounts, as opposed to within the 2018/19 comparator figures. Whilst this resulted in income and expenditure being over inflated in 2019/20, there was no impact on the outturn position. A51483446

Recommendation:

Inject more pace into the continued review of deferred income to ensure full compliance with the requirements of IFRS 15.

Recommendation 4 (refer <u>appendix 1</u>, action plan)

Recommendation:

Establish arrangements to ensure updated stock valuations are obtained prior to March 2021 in the event of continued disruption resulting from Covid-19.

Recommendation 5 (refer appendix 1, action plan)

Action already taken:

The board has agreed to change the respective prior year figures in note 3 and 4 of the draft annual accounts by £132.5 million.

8. Review of Central Legal Office post year end reports

The Central Legal Office (CLO) provide health boards with quarterly reports detailing claims received. The quarter four report includes claims received by the CLO as at 31 March.

This means that any claims received by CLO post 31 March are not captured in the report and it is up to the individual boards to gather, review and consider the impact of these late claims on their financial statements.

No process is in place to obtain and review information received after 31 March and as such no judgement has been made around whether any amendment is required to the financial statements.

Source: Audit Scotland

Recommendation:

We recommend a process is established to identify, obtain and review details of claims received by the CLO after 31 March but which relate to the accounting period of the financial statements.



Recommendation 6 (refer appendix 1, action plan)

Identified misstatements with an impact of £0.353 million on the outturn position were adjusted in the accounts

31. The outturn position has been impacted by audit adjustments of 0.352 million. These adjustments relate to the untaken leave accrual and health and social care partnership funding. These adjustments reduced the year end surplus by £353k from £591k to £238k.

32. A misstatement of £132.5m, as outlined in ISA 260 Finding 7 was identified. Due to the nature of the misstatement, this had no impact on the outturn position and the adjustment was processed through the Statement of Consolidated Comprehensive Net Expenditure. The misstatement identified was due to the prior year set aside restatement being processed as a 2019/20 transaction. We have concluded that the misstatement identified was an isolated issue and does not indicate wider systematic error. There were a small number of other changes within the notes to the accounts that have been adjusted and which have no impact on the reported outturn position.

33. One other misstatement, relating to FHS accruals was identified as detailed in Appendix 3 was identified which was not processed through the financial statements and this has been classified as an unadjusted error. Management have not adjusted for this item as they consider the amounts are not material in the context of the financial statements

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

Good progress was made on prior year recommendations

35. NHS Greater Glasgow and Clyde has made good progress in implementing our prior year recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management and are set out in Appendix 1. We also note that some recommendations have been superseded by events, including Covid-19 and we have updated Appendix 1 to reflect this.

Part 2 Financial management



Main judgements

NHS Greater Glasgow and Clyde operated within its Revenue Resource Limit reporting an underspend of £0.238 million. This was in line with the three-year financial plan which aims to achieve financial balance each year.

The board has appropriate budget processes, but NHS Greater Glasgow and Clyde continues to rely on significant levels of non-recurrent savings to achieve in-year financial balance and the boards underlying deficit increased to £55 million at the end of 2019/20.

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

NHS Greater Glasgow and Clyde operated within its Revenue Resource Limit (RRL) and within its one per cent flexibility

36. 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. As illustrated in <u>Exhibit 4</u>, the board operated within all limits during 2019/20.

Exhibit 4

Performance against resource limits in 2019/20

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	2,543.504	2,543.266	0.238
Non-core revenue resource limit	148.083	148.083	0
Total revenue resource limit	2,691.587	2,691.349	0.238
Core capital resource limit	36.860	36.846	0.014
Non-core capital resource limit	24.760	24.760	0
Total capital resource limit	61.620	61.606	0.014
Cash requirement	2,802.275	2,802.275	0

Source: NHS Greater Glasgow and Clyde Annual Report and Accounts 2019/20

Budget processes were appropriate

37. As part of our planning process, we reviewed the board's approach to budgeting and concluded that the budget process was appropriate. Senior management and non-executive Board members receive regular and accurate information reporting the organisations financial performance. The budget setting and monitoring arrangements allow officers to analyse financial performance and non-executive Board members to scrutinise the organisations financial position.

38. Financial reports include information on directorate budgets, cost pressures and the financial improvement programme tracker which outlines the full and current year effect on saving initiatives. The board identified and reported on emerging cost pressures during 2019/20 and these were articulated in the financial reports presented to the Board and Finance, Planning and Performance Committee.

39. The effects of the Covid-19 pandemic impacted in the final quarter of the financial year. The Scottish Government provided funding of £7 million to cover the costs of additional expenditure incurred for additional bed capacity, testing, personal protective equipment, investment in IT and accrued untaken annual leave. Part of the funding was provided to the health and social care partnerships in relation to prescribing costs and external provided services.

40. The board continue to incur additional expenditure in relation to Covid-19 in 2020/21 and expect clarification in due course from the Scottish Government around allocated funding.

Capital to revenue transfer of funds due to capital slippage and unallocated capital balance

41. NHS Greater Glasgow and Clyde received a total capital allocation of £61.6 million. An underspend of £0.014 million was reported.

42. In January 2020, Scottish Government agreed a transfer of £15.6 million capital allocation to revenue and a further £2.6 million of capital funds were transferred internally. This equates to around 20% of the overall capital funding available to the board and is the third consecutive year that a large balance has been transferred from capital funds to revenue (2018/19 £12.2 million; 2017/18: £10 million).

43. A significant proportion of the capital funds transferred relates to the forecast unallocated balance at the year end of £15 million. A large proportion of these funds were spent on the estate to cover the cost of revenue expenditure and includes the additional £9million against the repairs and maintenance budget. The remaining balance relates to capital slippage of £1.5 million and accounting adjustments of £1.7 million to ensure the correct classification of expenditure which is not eligible for capitalisation.

44. Whilst the board has re-profiled the budget for all capital slippage to ensure completion of the projects, there is an opportunity cost in the Board failing to utilise its full capital budget.

Efficiency savings were only achieved after relying on significant non-recurrent savings of £43.8 million

45. In 2019/20, NHS Greater Glasgow and Clyde was required to make efficiency savings of £75 million. This was a reduction in the savings requirement from the £93 million required in the prior year, however, it continues a period of significant annual savings being required as identified in Exhibit 5.

46. Recurring savings are savings, that once achieved, recur year-on-year from that date. Non-recurring savings are one-off savings that apply to one financial year and do not result in ongoing savings in future years. In a particularly challenging year the board achieved £31.2 million of savings on a recurring basis and £43.8 million non-recurrently. Despite the success in delivering £75 million in savings the board's underlying deficit increased from £50 million to £55 million.

47. The Board's reliance on non-recurrent savings continues to increase. The proportion of overall savings delivered through non-recurring solutions has remained consistently high and in the last three financial years the savings achieved non-recurrently has been greater than the recurrent level of savings achieved. This position is not sustainable in the medium and longer term and it requires the board to increase recurrent savings in future years to enable a breakeven position to be achieved.

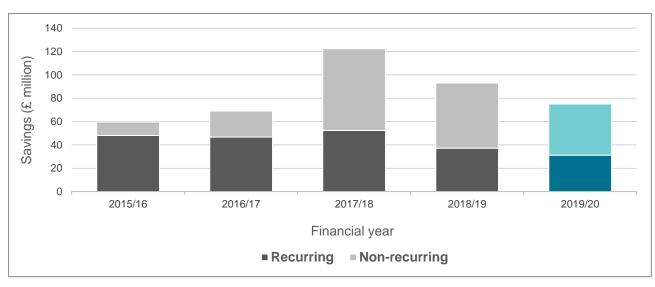


Exhibit 5 Savings – recurring and non-recurring

Source: NHS Greater Glasgow and Clyde Annual Accounts 2015/16 - 2019/20

Financial systems of internal control are operating effectively

48. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NHS Greater Glasgow and Clyde has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

49. Our management letter presented to the Audit and Risk Committee on 17 March 2020 concluded on our findings from the review of systems of internal controls. We determined that no significant key control weaknesses were identified from our interim audit work, however we did identify one weakness around petty cash reconciliations.

50. As part of our annual accounts work and in response to these findings, we reviewed a sample of year end petty cash balances and the respective reconciliations. Our review identified a further instance were the petty cash reconciliation was not completed on the correct reconciliation template as required by the 'Operating Procedures for the control and management of cash offices'.

Financial capacity

51. We have previously reported on financial capacity within the Board in relation to staffing changes as staff retire, leave the organisation or move post. We are also aware of staff within the department who plan to retire within the next year. As part of our planned audit approach this year, we reviewed financial capacity arrangements within the Board.

52. Our review noted a reduction in staff working in a finance role within the organisation since 2014/15, however, the number of professionally qualified staff has remained stable. On further analysis we noted that the corporate finance function has a significantly smaller proportion of professionally qualified staff. This could limit capacity and places additional responsibilities on a few individuals.

53. The board has been looking to revise its finance structure and a recruitment process is ongoing to fill three Assistant Director of Finance posts. Each of these posts has defined responsibilities and aims to improve accountability and reporting structures. Further review of the finance structure below this level is required to ensure that the finance department has sufficient capacity and capability going forward and that realistic and appropriate succession plans are in place to mitigate the impact of staff leaving.



Recommendation 7

Take steps to ensure that the finance function is appropriately resourced with experienced, skilled and knowledgeable staff and to develop and implement appropriate succession plans.

NHS Greater Glasgow and Clyde is working with NHS National Services Scotland to ensure issues identified in service auditor reports this year will be adequately addressed in future

54. 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.

55. We have considered the content of the service auditor assurance report, and any associated external audit report. The service auditor assurance report for primary care payments and the national IT contract both contained qualifications in 2019/20. Issues were identified with the retention of documentation and this resulted in qualifications in both reports. NHS NSS has provided assurance to all health boards that processes will be improved to address the issues giving rise to the qualifications. The qualifications did not impact on our audit approach as we were able to supplement the service auditor reports with assurances from our own planned local audit work. Also, the health board has made appropriate disclosures on the matter in the 2019/20 Annual Report and Accounts.

Internal audit

56. NHS Greater Glasgow and Clyde's internal audit function is carried out by Scott Moncrieff. We reviewed the Board's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the work of Internal Auditors) to determine the extent we could use the work of internal audit. We have used the work of internal audit in relation to payroll for our audit. There was one significant finding as outlined in Exhibit 3.

57. Scott Moncrieff has concluded its 2019/20 audit work. All planned work was completed with the exception of the review on waiting times which was deferred to early 2020/21 at the request of management. The Internal Audit Annual Audit Report, was presented to the September 2020 Audit and Risk Committee and concluded that the board's "..internal control framework provides reasonable assurance regarding the achievement of objectives, the management of key risks and the delivery of best value, except in relation to service redesign- acute stroke services, operational planning, medicines reconciliation in hospital, sickness absence follow up and IT security".

58. These five amber rated reports are reflected in the board's Governance Statement within the Annual Audit Report and Accounts.

The board has appropriate arrangements in place for the prevention of fraud and error and these are subject to regular review

59. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. NHS Greater Glasgow and Clyde 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.

60. We have reviewed the arrangements in place to maintain standards of conduct including the Standing Financial Instructions, Standing Orders, Code of Conduct for members and staff, fraud policy and whistle blowing arrangements. The board has a formal partnership with NHS Scotland Counter Fraud Services (CFS). These arrangements include the Fraud Liaison Officer circulating reports to the Audit and Risk Committee and appropriate managers. Reports from CFS highlight any referrals from NHS Greater Glasgow and Clyde and are presented quarterly to the meetings of the Audit and Risk Committee.

61. We have concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

The board is proactive in following up matches identified by the National Fraud Initiative and reporting findings to the Audit and Risk Committee

62. The National Fraud Initiative (NFI) is a counter-fraud exercise which operates across the UK public sector. It aims to prevent and detect fraud. It uses techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

63. The board adopted a pro-active approach in following up NFI investigations, with 10,543 of the 10,563 matches being reviewed.

Part 3 Financial sustainability



Main judgements

NHS Greater Glasgow and Clyde has a three-year, medium-term financial plan. This identifies a significant financial funding gap of £361.9 million over the next three years.

The board recognise that system wide transformation will be required to achieve medium to long term financial balance. The Moving Forward Together programme and the board's plans for re-mobilisation aim to deliver transformational change and service redesign. The longer the delay in implementing plans then the greater risk there will be that the plans are no longer sufficient to address the growing challenge.

The COVID-19 outbreak has had an impact on the short-term finances of NHS Greater Glasgow and Clyde. The impact of this in medium/longer term planning is currently being evaluated by the board.

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

Revenue funding has grown in real terms over the last five years

64. Revenue funding to NHS Greater Glasgow and Clyde from the Scottish Government has grown by 7.4 per cent in cash terms and 5.4 per cent in real terms compared to 2018/19 (Exhibit 6) but this includes additional funding to cope with the COVID-19 outbreak. NHS Greater Glasgow and Clyde has had to manage significant financial pressures over the past few years and has relied on a significant proportion of non-recurring savings to balance its financial position.

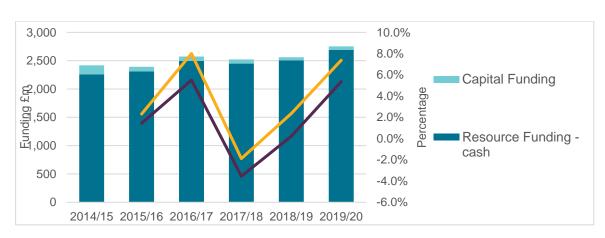


Exhibit 6 Cash and real term core funding to NHS Greater Glasgow and Clyde has risen

Source: NHS Greater Glasgow and Clyde Annual Report and Accounts/ Audit Scotland

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NHS Greater Glasgow and Clyde has a medium-term financial plan which aims to achieve financial balance by making best use of available resources

65. The Scottish Government published a new Medium-Term Health and Social Care Financial Framework in October 2018. This requires NHS Boards to set out plans to deliver a breakeven position over a three-year planning period rather than a one-year basis. Boards have the flexibility to report over or underspends of up to 1% of the Board's core revenue resource funding in-year.

66. NHS Greater Glasgow and Clyde aim to achieve financial balance over the three-year medium-term plan period, however, as outlined in <u>Exhibit 7</u>, their financial plan does not currently have a breakeven position for any individual year. Total savings of £361.9 million are anticipated over this period to achieve financial balance, with savings of £112.6 million required in 2020/21.

Exhibit 7 Savings forecast 2020/21 to 2022/23

	2020/21	2021/22	2022/23	Total
	£m	£m	£m	£m
Financial challenge	112.8	120.4	128.7	361.9
Forecast savings achievable (%)	29.3 (27%)	20 (17%)	20 (16%)	69.3 (19%)
Recurring deficit	(78.5)	(100.4)	(108.7)	(287.6)
Non-recurrent outturn	24	27.8	29.1	80.9
Forecast outturn	(54.5)	(72.6)	(79.6)	(206.7)

Source: NHS Greater Glasgow and Clyde 2019-20 Initial Draft Financial Plan

67. The board will continue to deliver savings through its Financial Improvement Programme (FIP), although due to the Covid-19 pandemic and the loss of the Head of the FIP partway through 2019/20, the Project Management Office has been less active in the first quarter of the year. In order to re-invigorate the programme a new Head of the FIP has recently been appointed and a new approach conceived.

68. The former Director of Finance of Scottish Government Health (now Director of Planning) worked with the Board in early 2020/21 and reviewed the FIP. A different approach, which is more closely aligned with that taken in the Scottish Government Health department's Medium-Term Financial Strategy, was recommended.

69. This has led to a number of changes to the FIP approach including:

- rationalising and changing the numbering of workstreams;
- allocating a 1.5% efficiency target across all sectors and directorates which equates to £24m
- allocating a £10m target for drugs savings across the Acute Division to be managed centrally; and

• holding the balance centrally to be managed by strategic board wide initiatives and by in year financial management processes.

70. In addition, a number of processes have been reviewed to simplify reporting and to reduce bureaucracy for service managers to develop and document plans.

71. The ongoing savings challenge is unprecedented. The board has achieved financial balance in recent years through cost containment measures, the Financial Improvement Programme (FIP) and non-recurring sources. To achieve recurring financial balance over the medium to long term a whole service redesign approach will be required. The Board's re-mobilisation plan and Moving Forward Together transformation programme aim to implement transformational changes and redesign services and patient pathways in a coherent way.

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Recommendation 8

Develop and implement detailed savings plans over the medium term which are aligned to the Re-mobilisation plan and Moving Forward Together programme. The savings plans should articulate how savings will be achieved.

Financial impact of the COVID-19 pandemic

72. Financial plans and projections have been impacted by the Covid-19 pandemic. As outlined in paragraph 39, the board incurred some additional costs in 2019/20. However, greater financial impact will be incurred in 2020/21.

73. The August Board received a report outlining the financial position as at June 2020 as \pounds 59 million over budget with \pounds 58.5 million relating directly to Covid-19 expenditure and the opportunity cost of the pandemic. This includes \pounds 32.7 million relating to the mobilisation and delivery of services due to Covid-19 and \pounds 25.8 million of unachieved savings as a consequence of the Covid-19 focus.

74. The board have submitted their quarter one financial return and are awaiting clarification around the funding due from the Scottish Government.

Part 4 Governance and transparency



Main judgements

NHS Greater Glasgow and Clyde has appropriate and effective governance arrangements in place. Changes in governance arrangements due to the impact of Covid-19 involved the temporary suspension of the standing committee structure and the establishment of an Interim Board in March 2020.

NHS Greater Glasgow and Clyde were escalated to Level 4 of the NHS Scotland Board Performance Escalation Framework in November 2019. This was initially in relation to infection prevention, management and control at the Queen Elizabeth University Hospital and Royal Hospital for Children and the associated communication and public engagement. This was then extended in January 2020 to include scheduled care, unscheduled care, primary care out of hours, finance, culture and leadership.

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

Overall governance and transparency arrangements were appropriate

75. The Board and accountable officers are responsible for establishing arrangements for ensuring the proper conduct of affairs at NHS Greater Glasgow and Clyde and for monitoring the adequacy of these arrangements.

76. Throughout 2019/20 we have reviewed a wide range of governance documents, minutes and committee papers. We have noted enhancements in the content, presentation and focus of committee papers and minutes.

77. We attend all Audit and Risk Committee meetings and regularly attend the Finance, Planning and Performance Committee and Acute Services Committee. We consider these committees to operate effectively.

78. Officers reviewed committee membership and the associated workload of Non-Executive Directors. There have been changes to Non-Executive membership over the past year as members reach the end of their term and new members are appointed. The Scottish Government approved the overall Non-Executive membership increasing from 23 to 25 to provide additional capacity.

79. We observed a good level of scrutiny and challenge from members and it is evident that members are well prepared for meetings. Senior officers attend and present reports to all Boards and committee meetings. A good working relationship exists between members and officers.

80. We conclude that the Board continue to make improvements to its governance arrangements. Arrangements in place are appropriate and provide a framework for effective decision making.

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The Board revised its governance arrangements in March 2020 in response to COVID 19

81. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in NHS Greater Glasgow and Clyde's Annual Report and Accounts. At a virtual Board meeting in March 2020, the Board agreed to suspend the standing committee structure and to establish an Interim Board to undertake all delegated business.

82. The membership of the Interim Board included eight non-executive members and two Executive members. These included the Board Chair and Vice Chair, chairs of governance committees and representation of stakeholder members. The full Board met on 30 June 2020, when a decision was taken to re-establish the full standing committee structure.

NHS Greater Glasgow and Clyde was escalated to level 4 of the Scottish Government's Performance Framework

83. In November 2019 the Cabinet Secretary announced that NHS Greater Glasgow and Clyde was being escalated to stage four of the NHS Scotland Board Performance Escalation Framework for infection prevention, management and control at the Queen Elizabeth University Hospital and Royal Hospital for Children and the associated communication and public engagement. An Oversight Board was established and chaired by the Scottish Government's Chief Nursing Officer. Its objectives, as outlined in the terms of reference, were to:

- improve the provision of responses, information and support to patients and families;
- support any identified improvements in the delivery of effective clinical governance and assurance within the Directorates identified;
- provide specific support for infection prevention and control, if required;
- provide specific support for communications and engagement and
- oversee progress on the refurbishment of wards 2A/B and any relates estates and facilities issues as they pertain to haemato-oncology services.

84. The Oversight Board reports to the Chief Executive of NHS Scotland and the Cabinet Secretary.

85. In January 2020 the Cabinet Secretary extended the escalation to include scheduled care, unscheduled care, primary care out of hours, finance, culture and leadership. Calum Campbell, the Chief Executive of NHS Lanarkshire was appointed as Turnaround Director to provide increased levels of scrutiny and intervention. He reported progress to the Scottish Government.

86. The board established a Programme Management Office (PMO) headed up by a Programme Manager to lead and coordinate the three workstreams of Scheduled Care, Unscheduled Care and GP out of Hours services. Three Senior Planning Managers are also assigned to the Programme.

87. In response to the widened escalation, the Board critically assessed the effectiveness of existing governance arrangements. All Board members contributed and the Chair developed a set of recommendations. These recommendations were considered by a joint meeting of Standing Committee Chairs, the IJB Chairs/Vice Chairs, Whistleblowing Champion, Executive Board Members and the Head of Corporate Governance and Administration and formed part of the Board's overall response to the escalation to Level 4. They are now part of the evidence being considered by the Cabinet Secretary, Scottish Government, and the Oversight Boards.

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88. Five Short Life Working Groups were established to review the governance arrangements for Moving Forward Together, the governance around Unscheduled Care (including Out of Hours Service), Board Members' Induction, the provision of Assurance Information and the presentation of Board Papers.

89. Acknowledging the unprecedented pressure on the NHS in response to COVID-19, the Oversight Board and the associated sub-groups were suspended in April 2020. The Scottish Government has continued to review the work undertaken on behalf of the Oversight Board from December to March and draft sub-group and associated work stream reports. It is anticipated that a single Oversight Board Report will be issued in the Autumn.

NHS Greater Glasgow and Clyde has faced scrutiny around infection control and the design, build, commissioning and maintenance of estate

90. During 2018/19, NHS Greater Glasgow and Clyde had three outbreaks of infection control in its hospitals. The board implemented actions in response to these outbreaks, including the establishment of Incident Management Teams. In January 2019 an unannounced inspection was undertaken by Healthcare Inspection Scotland and the board developed an action plan to address the findings.

91. Further to this the Cabinet Secretary announced an independent review focussing on infection prevention and control at the Queen Elizabeth University Hospital (QEUH) and Royal Hospital for Children (RHC).

92. The Board also commissioned an internal review in response to concerns around the operational effectiveness of the QEUH and the RHC. This aimed to provide an overview of key issues and identify actions to address the problems. An external technical advisor was appointed to review the hospital buildings.

93. The internal review findings were reported to the December 2019 Board. The board approved the raising of Court proceedings against the parties responsible for delivering the QEUH and RHC construction project.

94. The Queen Elizabeth University Hospital Review report was an independent review of the QEUH campus was published in June 2020. The review was co-chaired by Dr Brian Montgomery and Dr Andrew Fraser and was set up to establish whether the design, build, commissioning and maintenance of the Queen Elizabeth University Campus and Royal Hospital for Children has had an adverse impact on the risk of Healthcare Associated Infection.

95. The review examined documents, listened to witnesses and experts, undertook site visits and were supported in the review by advisors. The report concludes that the review had *"not established a sound evidential basis for asserting that avoidable deaths have resulted from the failures in the design, build, commissioning or maintenance of the QEUH and RHC".*

96. The Board has developed and started implementing an action plan in response to the 63 recommendations contained in the Queen Elizabeth University Hospital Review report.

Announcement and commencement of Public Inquiry

97. The Public Inquiry into the construction of the QEUH campus and the Royal Hospital for Children and Young People in Edinburgh was launched on 3 August 2020. The Public Inquiry will be led by the Rt Honourable Lord Brodie. The overarching aim of the Inquiry is to consider the planning, design, construction, commissioning and, where appropriate, maintenance of the sites. It will also determine how issues relating to adequacy of ventilation, water contamination and other matters adversely impact on patient safety and care and whether these issues 12020.

98. NHS Greater Glasgow and Clyde established a Project Management Office (PMO) in 2019 to manage the external review in relation to the QEUH and RHC. It will also manage the escalation on the Scottish Government Performance Framework and to support the Covid-19 response. The PMO will manage the Inquiry requirements in terms of administration and document flow and assessment. An Executive Oversight Group has also been established to ensure effective and transparent decision making.

Legal proceedings

99. In December 2019, the Board initiated Court Proceedings against the parties responsible for delivering the QEUH/RHC construction project and engaged MacRoberts LLP to act on its behalf. Legal proceedings have been initiated for losses and damages incurred in relation to a number of technical issues identified with the QEUH and RHC. These include issues with the water and ventilation systems, the heating system, the atrium roof and the internal fabric moisture ingress. The Board continues to engage with the appointed legal team to assess the claim.

Part 5 Value for money



Main judgements

NHS Greater Glasgow and Clyde has a clear performance management framework in place that supports the board in its drive to deliver value for money and focusses attention on the boards ambition to continuously improve.

The board continues to experience challenges in achieving key national performance targets. The COVID-19 pandemic led to routine elective work being suspended although we note that it was on track to meet its targets for elective and unscheduled care. However, the board achieved some performance standards and recognised improvements in performance against other standards. The board continues to demonstrate its commitment to service improvement through the development of improvement plans for the delivery of elective care.

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

NHS Greater Glasgow and Clyde has developed a Best Value framework

100. <u>Ministerial guidance to Accountable Officers</u> for public bodies and the <u>Scottish</u> <u>Public Finance Manual</u> (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

101. NHS Greater Glasgow and Clyde aim to embed best value across the organisation through a continual drive for improvement. The board's transformation programme, Moving Forward Together, aims to design a new system of care in the most effective way to provide safe, effective, person centred and sustainable care to meet the current and future needs of the population and to provide best value.

102. The boards ambitions for the transformation programme will be achieved through the redesign of services to ensure an efficient and sustainable model. The programme has been designed with clinicians from both the acute services and primary care working together along with patients, service users, the public and staff.

103. Examples of service redesign include the establishment of virtual clinics for patients referred to orthopaedic, fracture and lung clinics which aims to improve the service patients receive and the length of time between referral to a service and decisions being taken as to the pathway they will follow.

104. The Board has established a Financial Improvement Programme which identifies projects to deliver efficiencies across the organisation. These efficiencies may identify changes required to processes or services with an aim to achieve financial savings but also to improve in service delivery.

The board has an effective performance management framework that allows members to scrutinise performance effectively

105. The Scottish Government monitors how NHS Greater Glasgow and Clyde performs against the targets set in its national performance framework and local trajectories agreed with the board in its Annual Operational Plan (AOP). Examples include waiting times for access to treatment such as the proportion of patients that were seen within12 weeks (the treatment time guarantee).

106. The Board is kept well informed of performance across all areas. Performance reports are presented to each meeting of the Board and Acute Services Committee with detailed review of performance delegated to the Acute Services Committee.

107. During 2019/20, officers reviewed the performance report and refreshed its content and style. This has resulted in non-executive members receiving more focussed updates showing the latest performance information along with relevant trend analysis where appropriate and planned improvement actions. Performance reports are scrutinised in detail by members and explanations are sought from officers on reasons for performance issues and actions being taken to address concerns.

The board continues to experience challenges in achieving key national performance targets

108. Performance against key targets remained a focus for the NHS Greater Glasgow and Clyde in 2019/20. In common with other NHS boards, the board recognises the challenges it faces in meeting the national performance standards. The Covid-19 pandemic led to routine elective work being temporarily suspended from 16 March 2020 and this impacted upon the board's performance at the year end although we note that the board was on track to meet its targets for elective and unscheduled care.

109. Within the Performance Analysis section of the Annual Report and Accounts, the board outlined its performance against key targets at 31st March 2020. Challenges remain in achieving several targets including the Accident and Emergency waiting times target, and the child and adult mental health targets.

110. However, despite challenges faced and the impact of Covid-19, the board's performance exceeded the 31-day cancer target and the drug and alcohol waiting times target at 31 March 2020. Improvements were also noted in the year end performance of the 62-day cancer target and the 12-week outpatient target in comparison to the prior year.

111. The Board remain committed to improving performance as demonstrated in the Performance Summary Report presented to the August 2020 Board meeting which outlined required changes to the delivery of urgent and routine scheduled care. These changes will have a significant impact on the board's capacity to deliver routine elective care and the board are developing detailed plans.

National performance audit reports

112. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 a number of reports were published which are of direct interest to the board and are highlighted in <u>Appendix 4</u>.

113. The NHS Overview Report on the 2019/20 audits will include a review of the response to the COVID-19 pandemic by the NHS in Scotland along with a report on financial and operational performance. This is due to be published early 2021.

Appendix 1 Action plan 2019/20



No. Issue/risk

1 Performance and Accountability Reports

The Performance and Accountability reports were not provided as part of the financial statements package within agreed timescales.

Risk – The audit is delayed due to the absence of comprehensive complete reports and underlying documentation within the annual accounts audit package.



Recommendation

We recommend that officers review and refine the project plan for the delivery of the Performance and Accountability Reports to ensure that it is realistic. Project management principles are applied to ensure are delivered within agreed timescales and to appropriate standard.

ISA 260 Finding 1



Agreed management action/timing

The project plan was drafted and agreed. Improvements are required in the delivery process.

Responsible officer

Assistant Director of Finance – Financial Services, Capital and Payroll

Agreed date

31st March 2021

2 Governance Statement

The Governance Statement which forms part of the Accountability Report did not have all the assurance statements and certificates from Directors available for audit to review. The level of detail within some assurance statements was below expectations.

Risk – The Accountable Officer is not provided with the assurances required and the governance statement omits a significant issue. Directors should ensure that their assurance statement and certificate is completed comprehensively, within the required timeframe and to appropriate quality standards for the Accountable Officers review and consideration prior to the drafting of the governance statement.

ISA 260 Finding 2

The project plan was drafted and agreed. Improvements are required in the delivery process.

Responsible officer

Assistant Director of Finance – Financial Services, Capital and Payroll

Agreed date

31st March 2021

3 Existence of Assets

A sample of portable assets selected from the fixed asset register identified instances were assets had previously been disposed but no notification was provided to finance to update their records.

Furthermore, we noted that the verification exercises undertaken by the fixed asset team generally has a very poor

Establish appropriate arrangements for the verification of assets. This includes establishing management responsibilities within departments for ownership of assets and the return of relevant documentation to the fixed asset team within finance to ensure accounting records are complete. Agreed, although we also note the materiality proviso.

Responsible officer

Assistant Director of Finance – Financial Services, Capital and Payroll

Agreed date

31st March 2021



No.

Issue/risk



Recommendation

ISA 260 Finding 3



Agreed management action/timing

response rate and contribute to records being out of date or incomplete.

Risk – The underlying fixed asset records are incomplete.

4 Accounting for Research and Development Contracts

Although work has been undertaken on reviewing deferred income to ensure compliance with IFRS 15 further work is still required to ensure full compliance.

Risk – The board's accounts may be mis-stated.

Inject more pace into the continued review of deferred income to ensure full compliance with the requirements of IFRS 15.

Establish arrangements to ensure updated stock

March 2021 in the event of

from Covid-19.

ISA 260 Finding 5

continued disruption resulting

valuations are obtained prior to

ISA 260 Finding 4

We will work with External Audit to understand the requirements.

Responsible officer

Assistant Director of Finance – Financial Services, Capital and Payroll

Agreed date

requirements.

Payroll

Agreed date

31st March 2021

31st December 2020

We will work with External

Assistant Director of Finance -

Financial Services, Capital and

Audit to understand the

Responsible officer

5 Stock valuations

Officers were unable to undertake year end stock counts at most manual stock sites in March 2020 due to the Covid-19 pandemic. Prior year stock valuations were used in the absence of updated information. The inventory balance within the Statement of Financial Position includes prior year stock valuations of £11.5 million.

Risk – There is a risk that stock valuations are not accurate.

6 Review of Central Legal Office post year end reports

The Central Legal Office (CLO) provide health boards with quarterly reports detailing claims received. The quarter four report includes claims received by the CLO as at 31 March.

Boards are responsible for considering the impact of claims received after 31 March on their financial statements.

There is no process in place to obtain and review information received by the CLO after 31 March to determine if any We recommend a process is established to identify, obtain and review details of claims received by the CLO after 31 March but which relate to the accounting period of the financial statements.

ISA 260 Finding 8

Agreed.

Assistant Director of Finance – Financial Services, Capital and Payroll

Agreed date

31st March 2021



Issue/risk



Recommendation

Take steps to ensure that the

appropriately resourced with

experienced, skilled and

develop and implement

knowledgeable staff and to

appropriate succession plans.

Narrative on recommendation

finance function is

Paragraph 53



Agreed management action/timing

The staffing position in the

understood and the restructure

Finance Function is well

is well underway.

Responsible officer

Director of Finance

31st December 2020

Agreed date

adjustments are required to be processed through the financial statements.

Risk – There is a risk that the provisions within the accounts are understated and do not reflect all claims received by the CLO.

7 Financial capacity

The finance function has experienced staffing changes over the past year which affected officers involved in the preparation of the financial statements. Temporary arrangements were established however longerterm solutions are required.

Risk – The finance function is not appropriately resourced in terms of experience and knowledge, potentially leading to issues with financial management and accounts preparation.

8 Medium to long term financial balance

The board has had to achieve significant savings targets for a number of years. The 2020/21 financial plan sets out a saving requirement of £361.9 million over the next three years.

Medium to long term recurring financial balance requires a whole service redesign approach.

Risk – Savings requirements for the longer term may not be identified and achieved without whole service redesign. Develop and implement detailed savings plans over the medium term which are aligned to the Re-mobilisation plan and Moving Forward Together programme. The savings plans should articulate how savings will be achieved.

Paragraph 71

Discussions are on-going with the Scottish Government around the financial support for Covid and Remobilisation. Only then will the Board be able to assess the financial landscape.

Responsible officer

Director of Finance

Agreed date

30st October 2020

Follow up of prior year recommendations

9 Performance Report and Governance Statement

The draft report provided on 13 May 2019 required substantial changes prior to a revised version being passed to audit on 3 June 2019. There was no We recommend that officers introduce a comprehensive quality review prior to submitting the year-end reporting documents (performance and accountability report including annual governance statement

In Progress

Revised action: See 2019/20 recommendation 1 above.

No.



No.

Issue/risk



Recommendation



Agreed management action/timing

			action/timing
	evidence of the initial draft report having been reviewed prior to being passing to audit.	and annual accounts) for audit, to minimise the number of changes required.	
	The governance statement provided as part of this report was also incomplete with significant elements outstanding. This included the disclosure of significant issues and the appropriate assurance statements from some directors. The narrative contained within some assurance statements was restricted to yes/no answers and we would expect additional narrative to be provided by officers to provide evidence for the Chief Executive's review.		
	Risk - The audit is delayed due to the absence of comprehensive complete reports within the annual accounts audit package.		
10	RTA Income	The Board should ensure it fully adopts the guidance issued by the Department of Work and Pension.	Complete
	There is no bad debt provision nor bad debt write off as recommended by the guidance.		
	Risk – The RTA position within the financial statements may be mis-stated.		
11	Debt write off	The Board should ensure that all write offs are recorded in the correct accounting year. Timeous approval should be sought from Scottish Government on write offs above the specified limit.	Complete
	We noted last year that no debts were written off and were informed that overseas patient debt would be written off in 2018/19. We established that this debt was written off but that approval for this was received from Scottish Government in 2017/18.		
	We also noted that 4 debts were written off this year prior to receiving Scottish Government approval. The Audit and Risk Committee approved this write off on 4 June and approval is now being sought from Scottish Government.		

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No. Issue/risk

Recommendation



Agreed management action/timing

			action/timing	
	Risk – The annual accounts may be mis-stated and the Board may not be complying with SG guidance.			
12	Untaken leave accrual	The Board should establish a	Complete	
	The untaken leave accrual is based on the untaken leave position as at 31 March 2018. No exercise was undertaken this year to quantify the untaken leave as at 31 March 2019.	more definitive process for establishing the untaken leave position at the end of each financial year.		
	Risk – The accounts could be mis-stated.			
13	Deferred Income – Research and Development Contracts	The Board should undertake a review of its deferred income	In Progress	
	The Board's 2018/19 trade payables balance includes an amount for deferred income, the majority of which relates to research and development contracts. The Board has not provided evidence that the deferred income balance is in adherence with the guidance contained in IFRS 15.	on a project by project basis to demonstrate how each scheme complies with the requirements of IFRS 15.	Revised action: See <u>recommendation 4</u> in 2019/3 Action Plan above.	
	Risk – The Board's accounts may be mis-stated.			
14	Capacity of Finance	The Board should take steps	In progress	
	The finance function has experienced staffing changes over the past year which affected officers involved in the preparation of the financial statements. Temporary arrangements were established however longer- term solutions are required.	to ensure that the finance function is appropriately resourced with experienced, skilled and knowledgeable staff. Ensure succession planning arrangements are in place.	Revised action: See <u>recommendation 7</u> in 2019/20 Action Plan above	
	Risk - The finance function is not appropriately resourced in terms of experience and knowledge, potentially leading to issues with financial management and accounts preparation.			
15	Efficiency savings	Develop detailed, risk	Complete	
	For 2019/20 the Board is	assessed, savings plans to articulate how the target		

No.	lssue/risk	Recommendation	Agreed management action/timing
	£74.8 million. The Board has yet to identify how all the savings will be achieved. Risk – the Board may not be able to deliver the targeted savings in 2019/20 and beyond.	savings requirement of £74.8m will be achieved. Take steps to ensure ownership, responsibility and accountability for these plans across all levels within the organisation including appropriate monitoring, management and reporting arrangements at the Board, executive and directorate level.	
16	Medium to long term efficiency savings The financial plan sets out the savings over a three-year period. Consideration should be given to preparing medium to longer term efficiency savings targets. Risk – Savings requirements for the longer term may not be identified and achieved.	The Board should undertake scenario planning and associated financial modelling where the impact of known future events cannot be predicted with certainty.	In progress Revised action: See <u>recommendation 8</u> in 2019/20 Action Plan above
17	Medium to long term efficiency savings The financial plan sets out the savings over a three-year period. Consideration should be given to preparing medium to longer term efficiency savings targets. Risk – Savings requirements for the longer term may not be identified and achieved.	Prepare medium to longer term efficiency savings requirements based on key financial assumptions about future funding and costs and the "most likely outcome" scenario planning model for uncertain events.	In progress Revised action: See recommendation 8 in 2019/20 Action Plan above
18	Overview of service performance The Scottish Government has identified a number of performance standards that significantly impact on patients which boards have to focus on in 2019/20. The Board's performance against a number of these key standards has been in an adverse position during 2017/18. Risk - Performance may not improve or may continue to deteriorate if not addressed.	Learn the lessons from measures already implemented to improve performance in key waiting time targets to place greater emphasis on getting closer to the target and national averages for Treatment Time Guarantees, 12-week Outpatient Wait, Diagnostics, and 62-day Cancer Wait times.	In progress – will be reviewed in 2020/21 taking cognisance of any revised guidance issued by Scottish Government in light of the COVID 19 situation.

Appendix 2 Significant audit risks identified during planning

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

Risks of material misstatement in the financial statements

1 **Risk of material** misstatement caused by management override of controls

Auditing Standards 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 that results in fraudulent financial statements.

- Detailed testing of journal entries.
- Review of accounting estimates.
- Focussed testing of • accruals and prepayments.
- Evaluation of significant transactions that are outside the normal course of business.
- Substantive testing of transactions after the year end, to confirm expenditure and income have been accounted for in the correct year.

risk.

No unusual or inappropriate transactions were identified as part of our detailed journal testing.

A review of accounting estimates did not show any evidence of bias.

Focussed testing on accruals and prepayments did not identify any instances of management override of controls.

Within substantive testing we considered whether transactions were within the normal course of business. When selecting samples, we reviewed ledger or transaction listings that were outside the normal course of business.

Substantive testing of transactions around the year end identified controls were operating effectively.

Conclusion: We did not identify any incidents of management override of controls.

Detailed testing focussing Results: Detailed testing of on the areas of greatest expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year.

> Assurances were obtained from the findings of NHS Scotland Counter Fraud Services.

Risk of material

misstatement caused by

As most public-sector bodies

risk of fraud is more likely to occur in expenditure. There is

misstated resulting in a material misstatement in the

financial statements.

are net expenditure bodies, the

a risk that expenditure may be

fraud over expenditure

2

				Conclusion: We did not identify any incidents of fraud over expenditure.
3	Provisions There is a significant degree of subjectivity in the measurement and valuation of provisions. This subjectivity represents an increased risk of misstatements in the financial statements.	•	Review of information provided by the Central Legal Office. Focussed substantive testing within provisions on values and balances which are derived by valuation and estimation.	Results: A review of the information provided by the Central Legal Office to support the provision of clinical and medical legal claims and for CNORIS did not identify any issues and these have been correctly reflected in the financial statements.
				Substantive testing concluded that provisions had been accounted for appropriately.
				Conclusion: The measurement and valuation of provisions included in the financial statements are reasonable and supported by evidence.
4	Deferred income – research and development contracts The board's trade payables balance includes a material amount for deferred income, the majority of which relates to research and development contracts. During the 2018/19 financial statements audit the board had not yet fully reviewed the deferred income balance to assess its compliance with the requirements of the newly implemented International Financial Reporting Standard (IFRS) 15. There is a risk that the board's accounts could be materially misstated.	•	Review the principles established by the Technical Accounting Group for compliance with IFRS 15. Focussed testing prior to the year-end around the approach to accounting for deferred income and adherence to the principles of IFRS 15. Focussed substantive testing of year end deferred income balances.	Results: We reviewed the work undertaken by the board to ensure it complies with the requirements of IFRS 15 as detailed in the guidance issued by the Technical Accounting Group. Focussed testing was undertaken on balances. The deferred income balance has greatly reduced and the majority of expenditure is shown as a deferred liability. Conclusion: Further work is still required to ensure full compliance with IFRS 15 and the TAG guidance. Appendix 1 Action Plan Point 4
5	Existence of assets The fixed asset register is the key information source for the noncurrent asset balances included within the accounts. The board do not have effective arrangements in place to ensure that the fixed asset team are consistently informed of changes in the location or condition of non-current assets. Furthermore, there is limited asset verification work completed within the board. There is a risk that the fixed asset register does not accurately reflect the assets owned by the board and this increases the risk of	•	Review of arrangements in place within the board for verifying assets. Focussed verification work undertaken of a sample of portable assets.	Results: Reviewed arrangements within the board for asset verification exercises and noted limited response rate. Discussed the recording of assets with representatives from finance and the medical equipment management team. Selected a sample of assets from the fixed asset register to verify. Two of the five assets selected have previously been disposed but finance was not informed.
—А	51483446			existence of assets need to be

misstatement in the financial statements.

6 Integration Joint Boards

The IJB figures for incorporation into the NHS Greater Glasgow and Clyde group accounts were received later than planned in each of the last three years. Issues have also been noted in the past two years of instances where the information provided was incomplete or inaccurate. We recognise that the timely submission of this information is not wholly within the Board's control. There is a risk that the Board's accounts do not include the necessary consolidation adjustments and are delayed if the financial information is received late.

- We shall seek assurances from the appointed external auditor at each IJB and liaise as appropriate.
- We will obtain assurances from the Board's Director of Finance for the group governance disclosure.
- Specific group account testing will assess the appropriateness of consolidation transactions.
- We will review arrangements within the board for gaining assurances throughout the year around IJB balances, budgets and performance.

strengthened. See Appendix 1 Action Plan Point 3

Results: Assurances were obtained from the appointed external auditor at each IJB.

We completed specific group account testing on the consolidation transactions. The results of the IJBs were appropriately brought into the boards accounts, with the exception of the prior year set aside disclosure.

We held discussions with officers and reviewed the arrangements within the Board for recording and monitoring IJB budgets and performance during the year.

Conclusion: The IJB working papers were provided within the timescales for the 2019/20 annual accounts process. The restatement of the prior year set aside has been raised at ISA 260 Finding 7.

Qualitative aspects of reporting

7 Performance report and governance statement

Last years' performance and accountability report submitted for audit required substantial update and amendment prior to finalisation. There was also a lack of evidence of quality control arrangements having been exercised over the document. The governance statement was also incomplete with significant elements outstanding when it was submitted for audit. Some of the assurance statements from directors were provided late in the audit process and the quality of the assurance statements was variable.

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

8 Financial sustainability

NHS Greater Glasgow and Clyde's financial plan for 2019/20 identified a savings requirement of £75 million. At A511483446, the board are agreed dates.

Liaise with HB staff to

ensure completion by

Results: Discussions took place with officers around the timing and quality control arrangements for the performance report and governance statement.

Conclusion: The performance report and accountability report were received late. We recommend that a project plan is established to ensure the reports are prepared on time in 2020/21. See <u>Appendix 1 Action</u> <u>Plan Point 1</u>

- Monitor updates to the Financial Plan and the ongoing financial position.
- Review the monthly financial returns to the SGHSCD.

Results: The audit team reviewed financial updates to the board and other committees throughout the year.

projecting a year end deficit of £29.8 million.

- Review the financial monitoring reports to the board, acute services committee and finance, planning and performance committee.
- Attendance at the Finance Planning and Performance Committee.
- Test a sample of transactions substantively before and after the year end to confirm expenditure and income have been accounted for in the correct financial year.

We reviewed the monthly financial returns to SGHSCD.

Throughout the year we attended the Financial, Planning and Performance committee.

Substantively tested income and expenditure at the year end to confirm that they have been accounted for in the correct financial year.

Conclusion: The board achieved financial balance in 2019/20, albeit with reliance on non-recurring savings.

Significant financial challenges will continue in the short to medium term and this have been highlighted at

Appendix 1 Action Plan Point 8

9 Financial capacity

Over the past year the finance function has experienced staffing changes. Although temporary arrangements have been established there is a risk that the finance function is not appropriately resourced in terms of experience and knowledge, which has the potential to impact on the quality of financial management and accounts preparation.

- We shall undertake a follow up of the 2015/16 Financial Capacity Review
- We shall have early discussion with officers regarding the annual accounts timetable.
 Discussions will continue throughout the course of the audit.
- We will issue a working paper checklist to outline requirements and agree timescales for the receipt of unaudited accounts and working papers.

Results: We completed our financial capacity review follow up work.

We discussed the annual accounts timetable with officers and continued to regularly meet with officers.

We issued a working paper checklist outlining our requirements.

Conclusion: The unaudited annual accounts and supporting papers were provided in line with agreed timescales. However, the performance and accountability reports were provided late. See <u>Appendix 1</u> <u>Action Plan Point 1 and 7</u>

10 Performance

The board continues to face difficulties in achieving all of its key performance targets. There is a risk that, due to financial pressures and competing priorities, performance falls short of the required national standards.

- Monitor the regular performance reporting to the board and committees.
- Attendance at the Acute Services Committee.

Results: We reviewed performance reports presented to the Board and other committees.

Throughout the year we attended the Acute Services Committee.

Conclusion: This point has been superseded by the Covid-19 pandemic response and the required changes identified by the board in the delivery of urgent and routine scheduled care. These changes will have a significant impact on the board's capacity to deliver routine elective care. See para 111.

11 Senior Management Capacity

NHS Greater Glasgow and Clyde has experienced exceptional challenges this year; being placed in special measures, a public inquiry into the Queen Elizabeth University Hospital (QEUH) and litigation against the QEUH contractor. There is a risk that this may impact on Board and Senior Management capacity which could potentially result in a reduced wider strategic and operational oversight. This could have a detrimental impact on service delivery and damage broader partnership working.

- Assessing impact on Board and Senior Management capacity.
- Understand the impact on third and fourth tier management in terms of capacity and ability to respond to increased expectations.

Results: We have noted that the board are making progress in this area, for example, the current recruitment campaign to appoint three assistant directors of finance posts.

The board has developed a Project Management Office to manage the workload around escalation and the public inquiry.

Conclusion: We have seen evidence of capacity being strengthened or plans being developed to enhance capacity. We acknowledge that progress has been hindered by the Covid-19 pandemic response and recognise that this is an area of ongoing review and refinement.

Appendix 3 Summary of uncorrected misstatements

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

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

		Dr £000	Cr £000	Dr £000	Cr £000
1	FHS Expenditure		2,341		
	Trade payables			2,341	
	Net impact		2,341	2,341	

Notes:

1. Entry 1 relates to a year end over accrual of FHS cash limited expenditure which was included within the accounts. The FHS expenditure would reduce by £2,341k and therefore the impact of the reported outturn position would be increased savings against the RRL.

Appendix 4

Summary of national performance reports 2019/20



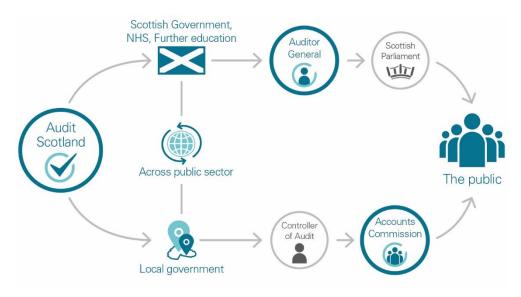
NHS relevant reports

<u>NHS workforce planning – part 2</u> – August 2019 <u>NHS in Scotland 2019</u> – October 2019

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
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- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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NHS Greater Glasgow and Clyde

2019/20 Annual Audit Report

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NHS Greater Glasgow and Clyde 2020/21 Annual Audit Report





Prepared by Audit Scotland September 2021

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinion on the annual accounts are unqualified and unmodified. The financial statements have been prepared to a high standard and are supported by a comprehensive set of working papers.
- 2 The ongoing Covid-19 restrictions impacted on the normal timetable for the audit, but we received the unaudited annual report and accounts and working papers by the agreed date of 7 June 2021. We carried out all aspects of our audit remotely, which created some challenges, and our audit took longer to complete. However, working with officers and staff from the health board we were able to address these challenges and minimise their impact.
- **3** The annual report and accounts will be signed in line with the revised statutory deadline of 30 September 2021.

Financial management and sustainability

- 4 NHS Greater Glasgow and Clyde operated within its revised Revenue Resource Limit, reporting a small underspend of £0.5 million, and maintained effective internal control systems throughout the year despite changed ways of working due to Covid-19.
- 5 The financial impact of Covid-19 on the board and the six Integration Joint Boards (IJBs) for the 2020/21 financial year is estimated to be in the order of £268 million. These costs were met by the Scottish Government.
- 6 In 2020/21 the board delivered against its savings target of £108 million but £93.4 million of the solutions were non-recurring and will be challenging to convert to ongoing savings in future years.
- 7 In line with Scottish Government guidance NHS Greater Glasgow and Clyde developed a one-year financial plan for 2021/22. The pandemic continues to have a significant operational and financial impact and the full extent of this is still to be evaluated over the medium term.
- 8 The board aims to achieve recurring savings through its Financial Improvement Programme (FIP) and there is a clear governance structure in place to support this. However, the scale of savings required to address the £93 million underlying deficit and achieve a recurring breakeven position is significant. At the end of the first quarter of 2021/22 the board reported an



overspend of £35.9 million, in line with the previously agreed financial plan. This position does not reflect any supporting non-recurring funds.

9 The pandemic continues to have a significant impact and its pressures are still evident across the system. The FIP, by necessity, is ambitious and transformational and, therefore, will require a number of difficult decisions to be taken by the board, its partners and stakeholders.

Governance, transparency and value for money

- **10** Governance arrangements were adapted for a second time to respond to the pressures of the Covid-19 pandemic. We have concluded that appropriate action was taken to ensure the continued good governance of the health board during this period. Whilst we recognise that normal governance arrangements have now resumed, we also acknowledge that their continuation is largely dependent on the progress of the pandemic.
- 11 The board has been de-escalated to stage two of the NHS Scotland Board Performance Escalation Framework for performance and service delivery but remains in stage four for specific issues relating to the Queen Elizabeth University Hospital and Royal Hospital for Children.
- 12 In March 2021, the Oversight Board Report and Case Note Review addressing the issues of infection prevention and control were published and made 61 recommendations for improvement which the board is taking forward.
- **13** NHS Greater Glasgow and Clyde has published a remobilisation plan to address backlogs caused by the Covid-19 pandemic and work towards achieving the medium term vision set out in Moving Forward Together. Aligned with this, the board has adapted its performance management framework to support the Scottish Government's Clinical Prioritisation Framework and has regularly reported progress during 2020/21.
- 14 Prior to the outbreak of Covid-19 NHS Greater Glasgow and Clyde was making steady progress towards the delivery of most key access targets. However, all the work and improvement activity into achieving this has had to be temporarily suspended across Scotland on a phased basis from the week beginning 16 March 2020.
- **15** NHS Greater Glasgow and Clyde has an appropriate and effective best value framework in place but this could be enhanced by formalising the reporting against each of the Best Value characteristics.

Introduction

1. This report summarises the findings from our 2020/21 audit of NHS Greater Glasgow and Clyde (the Board). The scope of our audit was set out in our Annual Audit Plan presented to the 16 March 2021 meeting of the Audit and Risk 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 <u>Code of Audit Practice 2016</u>
- 2. The main elements of our audit work in 2020/21 have been:
 - an audit of NHS Greater Glasgow and Clyde's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of NHS Greater Glasgow and Clyde's key financial systems
 - consideration of the four audit dimensions.

3. The global coronavirus pandemic has had a considerable impact on NHS Greater Glasgow and Clyde during 2020/21. This has led to significant implications for the services it delivers and for the costs of healthcare provision. It also resulted in the suspension of non-essential projects and activities. Risks related to the pandemic were included in our Annual Audit Plan (AAP), and we have adapted our planned audit work to address any new emerging risks where necessary.

Adding value through the audit

4. We add value to NHS Greater Glasgow and Clyde 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 Greater Glasgow and Clyde promote improved standards of governance, better management and decision-making and more effective use of resources.

Responsibilities and reporting

6. The body 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. The body 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 <u>Code of Audit Practice</u> <u>2016</u> 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 <u>Code of Audit Practice 2016</u> 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 <u>Appendix 1</u> 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 Accounts Commission or Auditor General 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 £407,810, 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 <u>www.audit-scotland.gov.uk</u> in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

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

Main judgements

Our audit opinion on the annual accounts are unqualified and unmodified. The financial statements have been prepared to a high standard and are supported by a comprehensive set of working papers.

The ongoing Covid-19 restrictions impacted on the normal timetable for the audit, but we received the unaudited annual report and accounts and working papers by the agreed date of 7 June 2021. We carried out all aspects of our audit remotely, which created some challenges, and our audit took longer to complete. However, working with officers and staff from the health board we were able to address these challenges and minimise their impact.

The annual report and accounts will be signed in line with the revised statutory deadline of 30 September 2021.

Our audit opinions on the annual report and accounts are unmodified

14. The board approved the annual report and accounts for the year ended 31 March 2021 on 21 September 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view of the financial position of the health board as at 31 March 2021 and of the net expenditure for the year then ended and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts are due to be signed in line with the revised statutory deadline

15. As a result of the continuing impact of Covid-19 the Scottish Government extended the deadline for the submission of health board audited annual report and accounts from 30 June 2021 to 30 September 2021. This mirrored the 2019/20 arrangements.

16. The unaudited annual report and accounts were received in line with our agreed audit timetable on 7 June 2021. The ongoing Covid-19 restrictions meant that we carried out all aspects of our audit remotely. The working papers provided by the board to support the accounts were of a good standard and the audit team received excellent support from finance staff, which helped to ensure that the audit process ran smoothly.

Overall materiality is £30 million

17. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in <u>Exhibit 1</u>.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£30 million (£27 million)
Performance materiality	£18 million (£16 million)
Reporting threshold	£250 thousand (£250 thousand)

Audit Scotland Annual Audit Plan 2020/21 (planning materiality in brackets)

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

18. <u>Appendix 2</u> 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. <u>Appendix 2</u> also identifies the work we undertook to address these risks and our conclusions from this work.

A resolution has been agreed for all significant findings from the audit

19. 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. Where findings have resulted in a recommendation to management, a cross reference to the Action Plan at <u>Appendix 1</u> has been included.

20. The significant findings are summarised in Exhibit 2.

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution		
1. Accounting treatment of waiting list backlog The unaudited accounts include a £48 million accrual that relates to an additional allocation from Scottish Government to address the backlog on elective procedures that has arisen due to Covid- 19. We reviewed the basis of this accrual and concluded that the estimated value of the waiting list backlog was reasonable and there is evidence to demonstrate that this activity needs to take place in future years. However, there is no	 An appropriate alternative accounting treatment has been agreed with officers, which includes: The transfer of £20 million to Glasgow City IJB to retain in an earmarked reserve which will only be used as required to reduce the waiting list backlog in future years. The return of £28 million to Scottish Government. This will be reflected as 		
evidence to indicate that a constructive obligation existed at 31 March 2021 and so, in our view, the expenditure should not be accrued.	a reduction in the revenue resource allocation to NHSGGC. The net impact of adjusting the 2020/21		
	accounts on the revenue resource outturn is nil.		
2. Queen Elizabeth University Hospital (QEUH) - public inquiry and legal case	A contingent liability disclosure has been added to the accounts to reflect		
In December 2019, the board initiated court proceedings against the parties responsible for delivering the QEUH/RHC construction project and engaged MacRoberts LLP to act on its behalf. The contractors have challenged the court action against them, and the outcome of initial hearings in respect of this challenge is currently awaited. Significant uncertainty remains over the direction of the legal proceedings and the costs to the board.	the cost of the QEUH public inquiry and legal proceedings raised against the board's main contractors. It is not possible to quantify these potential costs at this stage. This will be reviewed in future years to ensure it is appropriately reflected in the accounts.		

Paragraph 84.

Issue	Resolution
3. Clinical and medical negligence claims: re- opened cases We sought third party confirmation from the Central Legal Office on the clinical and medical negligence claim data used to estimate the provision in the accounts. This identified that 18 legal claims valuing £12.7 million had been omitted from the calculation as they had not been identified as re- opened. This was an isolated error and all other data used in the calculation was found to be complete and accurate.	The accounts have been adjusted to reflect the re-opened clinical and medical negligence claims based on their estimated value and risk factor. The net impact of adjusting the 2020/21 accounts on the revenue resource outturn was nil.
4. Payments to hospices Late guidance on the accounting treatment of hospice sustainability and £500 bonus payments advised that NHS boards are acting as agents for the Scottish Government in respect of these transactions. This means that NHS boards should not account for the expenditure and income associated with these transactions. Although the payments were correctly removed from the board's Statement of Consolidated Net Expenditure in the unaudited accounts, we noted that the amounts were still reflected in the cash drawn down from Scottish Government. The total value of these payments was £6.8 million.	The accounts have been adjusted to remove the cash drawn down relating to payments to hospices under agency arrangements. An explanatory note has been included within the financial performance section of the performance report to reconcile the difference. An additional disclosure note has also been added to the audited accounts to set out this agency arrangement and the values concerned.
5. Non-current asset revaluation Our testing identified that the increase in value of one of the assets revalued by the health board during 2020/21 had been incorrectly accounted for in the financial statements. Consequently, the Revaluations Reserve was understated by £2.693m and the General Fund Balance was overstated by the same amount. Further testing confirmed that this was an isolated error.	The accounts have been adjusted to correct the error identified. This has resulted in a £2.693 million increase in the revaluation reserve balance at 31 March 2021 and a corresponding decrease in the general fund balance.

Source: Audit Scotland

The accounts were adjusted to reflect a late change in accounting guidance

21. To protect health staff during Covid-19, NHS NSS ordered supplies of PPE and issued it to boards to use. The Scottish Government had initially concluded that these products should not be accounted for by the health boards but subsequently revised the accounting treatment in June 2021 and provided the relevant figures to the health board for inclusion in the 2020/21 accounts. Revised funding allocation letters were also issued to cover the cost of these items. The accounts have been updated to reflect costs and corresponding funding of £27.8 million. The net impact of adjusting the 2020/21 accounts was nil. Similarly, the costs and funding for Covid-19 testing kits of £9.6 million have also been reflected in the revised accounts.

Identified misstatements were above our performance materiality but we did not need to revise our audit approach

22. Total misstatements identified were £58 million. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We reviewed our audit approach to consider if additional testing was required.

23. Audit adjustments made in the accounts decreased net expenditure in the Consolidated Statement of Comprehensive Net Expenditure by £38 million and increased net assets in the Consolidated Statement of Financial Position by £38 million. This is mostly attributable to the change in accounting treatment of the waiting list backlog (Exhibit 2 – Issue 1).

24. One other misstatement, relating to FHS accruals, was identified as detailed in Appendix 3. This was not processed through the financial statements and has been classified as an unadjusted error. Management have not adjusted for this item as they consider the amounts are not material in the context of the financial statements.

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

Good progress was made on prior year recommendations

26. The Board has made good progress on implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in <u>Appendix 1</u>.

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 Greater Glasgow and Clyde operated within its revised Revenue Resource Limit, reporting a small underspend of £0.5 million, and maintained effective internal control systems throughout the year despite changed ways of working due to Covid-19.

The financial impact of Covid-19 on the board and the six Integration Joint Boards (IJBs) for the 2020/21 financial year is estimated to be in the order of £268 million. These costs were met by the Scottish Government.

In 2020/21 the board delivered against its savings target of £108 million but £93.4 million of the solutions were non-recurring and will be challenging to convert to ongoing savings in future years.

NHS Greater Glasgow and Clyde operated within its Revenue Resource Limit (RRL)

27. The Scottish Government Health and Social Care Directorates (SGHSCD) set annual resource limits and cash requirements which health boards are required by statute to work within. In response to the pandemic throughout 2020/21, additional non-recurring funding allocations were provided based on the estimated financial impacts of the pandemic on the board.

28. <u>Exhibit 3</u> below shows that the board operated within its limits during 2020/21. Actual expenditure was marginally lower than forecast and as a result NHS Greater Glasgow and Clyde 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	3,177.076	3,176.598	0.478
Non-core revenue resource limit	93.590	93.590	0
Total revenue resource limit	3,270.666	3,270.188	0.478
Core capital resource limit	79.957	79.947	0.01
Non-core capital resource limit	21.076	21.076	0
Total capital resource limit	101.033	101.023	0.01
Cash requirement	3,117.214	3,110.396	6.818

The outturn on cash requirement differs from the cash limit set due to the treatment of payments to hospices, which, in line with recommended practice, have been treated on an "agency" basis.

Source: NHS Greater Glasgow and Clyde Annual Report and Accounts 2020/21

The financial impact of Covid-19 was significant

29. As part of the NHS re-mobilisation exercise health boards undertook significant work to assess and estimate the financial impact of the pandemic under two broad headings:

- increased costs for Covid-19 related activity; and
- decreased costs due to reduced demand in other areas and loss of income.

30. These estimates were kept under review and reported to the Scottish Government on a regular basis. Exhibit 4 shows the Covid-19 expenditure reported by the board and the six integration joint boards (IJBs) that are in formal partnership arrangements with NHS Greater Glasgow and Clyde Health Board. The net costs identified were met by additional funding allocations from the Scottish Government.

Exhibit 4 Financial impact of Covid-19

	Net impact (£m)
NHS Board Board only	176.0
Health & Social Care Health care services Social care services	23.4 68.4
Net financial impact of Covid-19	267.8

Source: NHS Greater Glasgow and Clyde

31. Some of the significant areas of additional expenditure or reduced income in relation to Covid-19 reported by the board include:

- an increase of £62 million for temporary staff and overtime
- creating additional hospital bed capacity at a cost of £13 million
- additional deep cleaning costs of £14 million
- an increase in the cost of supplies, including £4 million for additional personal protective equipment (PPE)
- Covid-19 screening, testing and immunisations at a cost of £17 million
- a £14 million loss of income (e.g. overseas patients, catering facilities)

32. Several other allocations were received by the board for specific purposes, including the £500 bonus payment to health and social care staff, and additional integration authority support. Amounts earmarked by the Scottish Government for use by the IJBs were transferred to them and the IJBs can retain any unspent funding within their reserves. All six IJBs are reporting a significant increase in their year end reserves position as a result of late funding allocations.

£108 million of efficiency savings were achieved but 86 per cent was on a non-recurring basis

33. In 2020/21, NHS Greater Glasgow and Clyde was required to make efficiency savings of £108 million. This was achieved despite the pandemic, however, the board relied heavily on non-recurring solutions including support from Scottish Government and underspends on elective activity due to Covid-19.

34. Only £14.6 million of the total savings achieved were on a recurrent basis. This means that £93.4 million, or 86 per cent, of the savings achieved are one-off and will not result in ongoing savings in future years. We have previously reported on the board's increasing reliance on non-recurrent savings and over the medium to long term this approach is unsustainable.

35. We recognise that the board's ability to progress savings initiatives through the Financial Improvement Programme in 2020/21 was significantly impacted by Covid-19. However, the scale of the underlying deficit that has resulted from this, combined with other long term impacts of Covid-19, will be a significant challenge for the board to overcome in the years ahead. A new Head of the Financial Improvement Programme has been appointed to drive forward the savings activity in 2021/22. The board has agreed that the key financial objective is to reduce the underlying recurring deficit.

Financial systems of internal control are operating effectively

36. Our management letter presented to the Audit and Risk Committee on 22 June 2021 concluded our findings from the review of systems of internal controls. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Greater Glasgow and Clyde's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

37. We identified two areas for improvement relating to user access reviews and the process for identifying a capitalisation date for assets under construction. Officers accepted the recommendations and committed to actioning them with immediate effect.

We identified areas for improvement in the capital accounting process and action is being taken to address this

38. In our 2019/20 annual audit report we recommended that NHS Greater Glasgow and Clyde establish appropriate arrangements for the verification of assets. This year we have seen improvement, with a verification exercise being initiated. Asset listings were sent to the responsible Heads of Finance to confirm the accuracy of the listing. However, only a limited number of responses were provided and so the exercise is incomplete. We were, therefore, unable to place assurance on the process and undertook substantive testing to gain assurance in this area. In addition to the verification exercise, management have advised that going forward specific department/site verification checks will be undertaken.

Recommendation 1

The arrangements for the verification of assets should be fully implemented. This includes establishing management responsibilities within departments for ownership of assets and the timeous return of relevant documentation to the fixed asset team.

39. The NHS Scotland Capital Accounting Manual requires boards to assess, at each reporting date, whether there is any indication that an asset should be impaired. Currently at NHS Greater Glasgow and Clyde, the fixed asset team relies on local teams to inform them of impairments as they occur. The opportunity exists for a more formal process to be implemented to provide annual assurance that all impairment indicators have been identified.

Recommendation 2

A formal impairment review should be carried out annually by the Capital Planning Group and provided to the fixed asset team to support the preparation of the annual accounts.

Early indications are that changes within the finance structure at a senior level are working well

40. A restructure of the finance function was delayed by Covid-19. The restructure commenced in 2020/21 and is now nearing conclusion. Phase 1 was completed in 2020/21 with the appointment of the three new Assistant Directors of Finance. Each of these posts has defined responsibilities, covering: Financial Services, Capital and Payroll, Financial Planning and Performance, Acute and Access.

41. There is a risk associated with change of this magnitude at a senior level in any organisation, partly due to the loss of knowledge and expertise of previous post holders. However, our experience from an audit perspective is that the risks are being well managed, and the changes have been positive for the board.

42. We have previously reported on a reduction in staff working in a finance role within NHS Greater Glasgow and Clyde. We identified that although the overall number of qualified staff has remained stable, the corporate finance function has a significantly smaller proportion of professionally qualified staff and this could limit capacity and place additional pressure on a small number of key individuals.

43. Phase 2 of the restructure addresses management posts beneath Head of Finance level to ensure that the department has sufficient capacity and capability going forward. Several new and revised posts have been agreed as part of this process and interim appointments have been made to key roles pending conclusion of the restructure.

Shared systems can be relied on for recording board costs

44. The NHS in Scotland procures several service audits each year for shared systems. Within this suite of service audits, NHS National Services Scotland (NSS) procures service audits covering primary care payments.

45. The service auditor assurance report for primary care payments was qualified in 2019/20 and again in 2020/21. The most significant matters leading

to this qualification were issues relating to the retention of documentation at NHS NSS who have subsequently provided assurance to all health boards that processes will be improved to address these matters. The qualifications did not impact on our audit approach as we were able to supplement the service auditor reports with assurances from our own planned local audit work.

46. NHS Greater Glasgow and Clyde has made appropriate disclosures on the matter in the 2020/21 governance statement.

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

47. There are appropriate arrangements for the prevention and detection of fraud, error and irregularities. NHS Greater Glasgow and Clyde 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.

48. We have reviewed the arrangements in place to maintain standards of conduct including the Standing Financial Instructions, Standing Orders, Code of Conduct for members and staff, fraud policy and whistle blowing arrangements. The board has a formal partnership with NHS Scotland Counter Fraud Services (CFS). These arrangements include the Fraud Liaison Officer circulating reports to the Audit and Risk Committee and appropriate managers. Reports from CFS highlight any referrals from NHS Greater Glasgow and Clyde and are presented quarterly to the meetings of the Audit and Risk Committee.

49. NHS Greater Glasgow and Clyde took the opportunity to review and enhance its whistleblowing policy and procedures to align with <u>The National</u> <u>Whistleblowing Standards</u> from April 2021. A retrospective 3-year review of individual and management experience of whistleblowing was carried out to inform the development of the whistleblowing policy. A Whistleblowing Partnership Working Group has been established to oversee the implementation of the new standards and to implement the recommendations from the review.

50. We have concluded that the board has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

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 Greater Glasgow and Clyde developed a one-year financial plan for 2021/22. The pandemic continues to have a significant operational and financial impact and the full extent of this is still to be evaluated over the medium term.

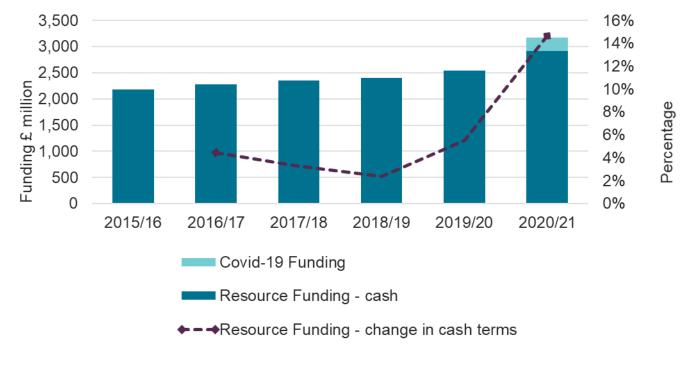
The board aims to achieve recurring savings through its Financial Improvement Programme (FIP) and there is a clear governance structure in place to support this. However, the scale of savings required to address the £93 million underlying deficit and achieve a recurring breakeven position is significant. At the end of the first quarter of 2021/22 the board reported an overspend of £35.9 million, in line with the previously agreed financial plan. This position does not reflect any supporting non-recurring funds.

The pandemic continues to have a significant impact and its pressures are still evident across the system. The FIP, by necessity, is ambitious and transformational and, therefore, will require a number of difficult decisions to be taken by the board, its partners and stakeholders.

Underlying core revenue funding has increased by 14.7 per cent from 2019/20

51. The board's core revenue funding (excluding additional Covid-19 funding) from the Scottish Government increased by 14.7 per cent in cash terms compared to 2019/20 (Exhibit 5).

Exhibit 5



Movement in cash terms core revenue funding to NHS Greater Glasgow and Clyde excluding Covid-19 funding

52. Specific funding allocations that have contributed to the increase in year include £25 million to reduce the backlog in elective surgery, £39 million to support the accumulation of annual leave due to Covid-19, £15 million to fund the backdated pay award, and £22 million to support integration joint boards. There was also an additional £268 million to cover the estimated impact of Covid-19 as submitted to Scottish Government by the board.

53. The current 2021/22 Scottish budget includes another rise in baseline funding of £33 million (or 1.4 per cent) for NHS Greater Glasgow and Clyde. A further £869m of additional Covid19 related funding will also be distributed across NHS Scotland in 2021/22.

NHS Greater Glasgow and Clyde has prepared a one year financial plan for 2021/22 as required by the Scottish Government and faces a significant challenge to breakeven and reduce the underlying recurring deficit

54. 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.

55. NHS Greater Glasgow and Clyde's 2021/22 financial plan was approved by the board in March 2021. The forecast includes a higher degree of uncertainty due to the impact of Covid-19 on service levels and the related costs and funding. Forecasts in the financial plan are based on several assumptions

Source: NHS Greater Glasgow and Clyde accounts / Audit Scotland

including allocation uplifts, pay cost growth, anticipated increase in prescribing costs, inflationary and future development costs.

56. The board identified that the financial projections need to remain fluid in 2021/22 due to the level of uncertainty that still exists around Covid-19. Exhibit <u>6</u> outlines the initial financial projections which identified a cash efficiency challenge of £19.5 million.

Exhibit 6 2021/22 Financial Outlook	
	£m
Additional cost pressures (excluding IJBs)	177.6
Offset by:	
Additional funding	(20.1)
Recurring savings	(35.0)
Non-recurring savings	(68.0)
Non-recurring support	(35.0)
Net cash efficiency challenge	19.5

Source: NHS Greater Glasgow and Clyde

The Financial Improvement Programme has been remobilised and a clear governance structure is in place

57. As stated previously, Covid-19 has exacerbated the financial challenge facing the board. The underlying deficit has increased to £93 million in 2021/22 from £55 million in 2020/21. A reduction in the underlying deficit from £93 million has been targeted for 2021/22, although this will depend on Covid-19 and other in year pressures.

58. The board aims to achieve savings through its Financial Improvement Programme (FIP) but due to Covid-19 the programme has been less active during 2020/21. A new Head of Financial Improvement has been appointed and there is now a clear governance structure in place to drive the work forward in 2021/22. This includes a Delivery Board that meets weekly to assess performance, and a Performance Board, which includes the Chief Executive, that meets monthly to carry out a more detailed review of schemes, enhance governance and take strategic decisions. There are several ongoing workstreams that form part of the programme, including:

Procurement

- Prescribing
- Service redesign
- Ehealth, digital and innovation
- Property and asset management
- Workforce plans
- Income.

59. Reporting at the end of July 2021 indicates that £9 million savings have been achieved on a full year basis. At the end June 2021, the board reported an overspend of £35.9 million, which was almost wholly attributable to unachieved savings and is in line with the previously agreed financial plan. This presents a significant risk to the target reduction in the underlying deficit and the board breaking even in year. The board should continue to progress the Financial Improvement Programme in conjunction with the Remobilisation Plan and Moving Forward Together. Detailed recurring savings plans should be developed that will enable financial balance to be achieved in the current year and into the future.

Recommendation 3

Develop and implement detailed savings plans over the medium term which are aligned to the Remobilisation Plan and Moving Forward Together programme.

A new medium term financial plan needs to be developed to reflect the significant uncertainty and challenges created by Covid-19

60. NHS Greater Glasgow and Clyde's current medium term financial plan covers the years 2020/21 to 2022/23 and was prepared prior to the pandemic and so the assumptions and forecasts included need to be reviewed and reassessed. The board's current remobilisation plan is supported by financial projections over a one year period.

61. The opportunity exists to develop a new medium term financial plan in conjunction with stakeholders and partners, which recognises the ongoing challenges and significant uncertainty created by Covid-19. This should include a range of scenarios to support a flexible and agile response to changes in the environment. The financial plan will need to be aligned with the board's remobilisation plans and initiatives in the Financial Improvement Programme and Moving Forward Together.

62. Creating a robust medium term financial plan in the current context will be a complex and challenging process. However, it is a critical step if the board is going to deliver on its activity targets and wider objectives, at the same time as reducing the underlying deficit to a sustainable level over the medium term.

Preparing a three year financial and capital plan has been identified as one of the board's key financial objectives for 2021/22.

Recommendation 4

Develop a robust medium term financial plan with stakeholders and partners to include a range of different scenarios to reflect the uncertain environment that exists and be aligned with the board's transformation and savings programmes to support a reduction in the underlying deficit.

The board's transformation programme, Moving Forward Together, was paused due to Covid-19 but progress has continued in some areas

63. The board's transformation programme, Moving Forward Together, aims to design a new system of care in the most effective way to provide safe, effective, person centred and sustainable care to meet the current and future needs of the population and to provide best value.

64. The Moving Forward Together ambition will be achieved through the redesign of services to ensure an efficient and sustainable model. The programme has been designed with clinicians from both the acute services and primary care working together along with patients, service users, the public and staff. Due to Covid-19 the transformation programme has not progressed as planned and some areas have been paused, whilst some have developed more quickly than expected. This includes the use of eHealth (e.g. virtual consultations) and the establishment of the Navigation Flow Hub to direct patients to the most appropriate service.

65. While there has been significant additional funding provided to the board and its partners in 2020/21, this has been allocated as non-recurring funding and there will be a need to refocus on service redesign programmes going forward. The formal governance structure that supports Moving Forward Together recommenced in August 2021.

4. Governance and

transparency

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

Main judgements

Governance arrangements were adapted for a second time to respond to the pressures of the Covid-19 pandemic. We have concluded that appropriate action was taken to ensure the continued good governance of the health board during this period. Whilst we recognise that normal governance arrangements have now resumed, we also acknowledge that their continuation is largely dependent on the progress of the pandemic.

The board has been de-escalated to stage two of the NHS Scotland Board Performance Escalation Framework for performance and service delivery but remains in stage four for specific issues relating to the Queen Elizabeth University Hospital and Royal Hospital for Children.

In March 2021, the Oversight Board Report and Case Note Review addressing the issues of infection prevention and control were published and made 61 recommendations for improvement which the board is taking forward.

The board amended its governance arrangements in January 2021 due to pressures from the second wave of Covid-19

66. The board and accountable officers are responsible for establishing arrangements for ensuring the proper conduct of affairs at NHS Greater Glasgow and Clyde and for monitoring the adequacy of these arrangements.

67. We reported in last year's annual report on the revised governance arrangements introduced by NHS Greater Glasgow and Clyde including the suspension of the standing committee structure and the establishment of an interim board to undertake delegated business. Overall, we concluded that governance arrangements in place were appropriate and operated effectively.

68. In January 2021, there was a further amendment to the governance arrangements considering the significant pressure arising from the second wave of the Covid-19 pandemic. This included the suspension of all standing committee meetings between January and early March 2021. The full committee timetable resumed from mid-March 2021 and the decision to re-

establish the full standing committee structure was approved by the board on 30 June 2021.

69. Board and committee meetings continued to operate effectively during a period of significant uncertainty and change in 2020/21 and appropriate levels of scrutiny and challenge have been present in these meetings throughout the year.

An independent review of NHS Greater Glasgow and Clyde's governance arrangements identified five development areas

70. The Royal College of Physicians of Edinburgh Quality Governance Collaborative carried out an independent review of the governance of NHS Greater Glasgow & Clyde Health Board and reported its findings in April 2021. The review consisted of:

- A desktop review of NHSGGC's Governance Board self-assessment documentation prior to the commencement of observations
- A thorough observation of the board and sub-committee meetings (standing committees) between October 2020 and March 2021.

71. Overall, the review concluded that the board works well together, displays professionalism and its membership skills reflect the needs of NHS Greater Glasgow and Clyde. Other positive observations included evidence of a strong focus on risk architecture, a culture of openness and honesty and a consistent evaluation of patient safety and awareness throughout all discussions. An action plan is being developed based on five identified development areas.

72. A six phase Active Governance Programme has been developed by the board for 2021/22. Phase one and two are complete and include work around the assurance framework, risk management, audit and operating arrangements, support to board members and, communication and engagement.

The board has been de-escalated to stage two of the NHS Scotland Board Performance Escalation Framework for performance and service delivery but remains in stage four for specific issues relating to the Queen Elizabeth University Hospital and Royal Hospital for Children

73. In November 2019 the Cabinet Secretary announced that NHS Greater Glasgow and Clyde was being escalated to stage four of the NHS Scotland Board Performance Escalation Framework for infection prevention, management and control at the Queen Elizabeth University Hospital (QEUH) and Royal Hospital for Children (RHC) and the associated communication and public engagement. An Oversight Board was established and chaired by the Scottish Government's Chief Nursing Officer, reporting to the Chief Executive of NHS Scotland and the Cabinet Secretary.

74. In January 2020 the Cabinet Secretary extended the escalation to include scheduled care, unscheduled care, primary care out of hours, finance, culture and leadership. Calum Campbell, the Chief Executive of NHS Lanarkshire was

appointed as Turnaround Director to provide increased levels of scrutiny and intervention. He reported progress to the Scottish Government.

75. During March 2021, as part of the assessment of the latest remobilisation plans submitted to the Scottish Government, a review of boards' escalated positions was undertaken. This examined information from the remobilisation plans as well as other relevant data. The review also considered any specific issues at the time of escalation. The outcome of this review was reported in June 2021 and the board was de-escalated to stage two in relation to performance and service delivery. Action taken to address the escalation concerns has been set out in the board's Remobilisation Plan 3. However, the board remains at stage four in relation to issues around the systems, processes and governance relating to infection prevention, management and control at the Queen Elizabeth University Hospital and the Royal Hospital for Sick Children.

A Gold Command delivery group has been established to oversee the delivery of actions in response to the Oversight Board Report and Case Note Review

76. The Oversight Board based its investigation into the QEUH / RHC escalation issues around four key questions:

- To what extent can the source of the infections be linked to the environment and what is the current environmental risk?
- Are IPC functions "fit for purpose" in NHSGGC, not least in light of any environmental risks?
- Is the governance and risk management structure in NHSGGC adequate to pick up and address infection risk?
- Has communication and engagement by NHSGGC been sufficient in addressing the needs of children, young people and families with a continuing relationship with the Health Board in the context of the infection incidents?

77. The final Oversight Board Report was published in March 2021. A total of 18 recommendations were made by the Oversight Board across the areas of infection prevention and control, governance and risk management, communication and engagement and general issues. This included 12 recommendations that were specific to the Board and 6 to be consider nationally. The Oversight Board concluded that the Board should not be deescalated from stage four, however, recognised the action already taken to make improvements.

78. At the same time an independent Case Note Review was commissioned to examine the individual incidents of infection among the children and young people affected. This was reported at the same time as the Oversight Board Report. The review was conducted by a panel of independent experts, led by Professor Mike Stevens, Emeritus Professor of Paediatric Oncology from the University of Bristol. The findings stated that they were unable to identify evidence that unequivocally provided a definite relationship between any

infection episode and the hospital environment. However, in the absence of a definitive link to the environment, they felt the possibility of a link remained strong.

79. A total of 43 recommendations over 15 themes were reported through the Case Note Review. As with the Oversight Board, the board was credited for the action already being taken. A Gold Command delivery group, chaired by the board's Chief Executive, is in place to ensure that all recommendations from both reports are progressed.

80. The Oversight Board has been replaced by the Advice, Assurance and Review Group (AARG), which met for the second time in August 2021.

Resources have been increased to support the Scottish Hospitals Public Inquiry

81. The Scottish Hospitals Public Inquiry (the Inquiry) into the construction of the QEUH campus and the Royal Hospital for Children and Young People in Edinburgh was launched in August 2020. NHS Greater Glasgow and Clyde established a Project Management Office (PMO) in 2019 to manage the external review in relation to the QEUH and RHC. The PMO is responsible for managing the Inquiry requirements in terms of administration and document flow and assessment. Resources within the PMO have been increased, and a single team is now in place to manage the Inquiry and the legal claim (Paragraph 84.). The Executive Oversight Group, which was established to ensure effective and transparent decision making, has increased the frequency of its meetings to weekly to support decision making.

82. The Inquiry is led by the Rt Honourable Lord Brodie and the timescales for 2021 were set out earlier in the year. This included the issue of formal evidence requests on 1 February 2021. Work is underway to respond to the information requests and this is likely to continue for several months. The key areas of interest include:

- Adequacy of ventilation, water contamination and other matters adversely impacting on patient safety and care
- Governance and project management
- Effects of the issues identified on patients and their families.

83. On 22 June 2021, the first formal hearing of the Inquiry took place. This was a procedural hearing, and the substantive hearings of the Inquiry will begin on 20 September 2021. The focus of this first set of hearings is to enable the Inquiry to understand the experiences of affected patients and their families. A development seminar will take place on 15 September 2021 to ensure board members are well informed ahead of the substantive hearings.

The outcome of the legal debate is not known

84. In December 2019, the board initiated court proceedings against the parties responsible for delivering the QEUH/RHC construction project and engaged solicitors (MacRoberts LLP) to act on its behalf. Legal proceedings have been initiated for losses and damages incurred in relation to a number of technical issues identified with the QEUH and RHC. These include issues with the water and ventilation systems, the heating system, the atrium roof and internal fabric moisture ingress. The contractors have challenged the court action against them on the basis of:

- whether it was a contractual requirement for both parties to adjudicate prior to raising the Court action this is a feature of NEC 3 contracts
- whether the NHSGGC claim was within the five year time bar when lodged through court action in January 2020.

85. Hearings in relation to the above were held at the end of July 2021 and it is expected to take between 8 and 12 weeks from that date for the Court to reach its decision as to whether and in what form the case can proceed. Consequently, there remains significant uncertainty over the direction of the legal proceedings and therefore the overall cost to the board, both in terms of finances and the associated workload is also uncertain at this stage. A contingent liability has been disclosed in the accounts to recognise the possible obligations that may arise following the outcome of the legal debate.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

NHS Greater Glasgow and Clyde has published a remobilisation plan to address backlogs caused by the Covid-19 pandemic and work towards achieving the medium term vision set out in Moving Forward Together. Aligned with this, the board has adapted its performance management framework to support the Scottish Government's Clinical Prioritisation Framework and has regularly reported progress during 2020/21.

Prior to the outbreak of Covid-19 NHS Greater Glasgow and Clyde was making steady progress towards the delivery of most key access targets. However, all the work and improvement activity into achieving this had to be temporarily suspended across Scotland on a phased basis from the week beginning 16 March 2020.

NHS Greater Glasgow and Clyde has an appropriate and effective best value framework in place but this could be enhanced by formalising the reporting against each of the Best Value characteristics.

NHS Greater Glasgow and Clyde's Remobilisation Plan 3 outlines how the board will address backlogs caused by the Covid-19 pandemic and restore performance levels

86. The Scottish Government has requested NHS boards produce and regularly revise remobilisations plans which outline plans for the restoration of normal health services. NHS Greater Glasgow and Clyde's Remobilisation Plan 3 was submitted to Scottish Government in April 2021 and covers the period 1 April 2021 to 31 March 2022. The board is now working on Remobilisation Plan 4. Moving Forward Together (MFT) continues as the key strategic document, setting out the medium term vision for clinical services in NHS Greater Glasgow and Clyde.

87. NHS Greater Glasgow and Clyde's Remobilisation Plan 3 includes a series of planned actions across 11 key priorities – workforce, public health, social care, planned care, unplanned care, mental health, primary and community care, addressing inequalities, digital and eHealth, patient experience and, finance and capital. Key planned actions include:

• Covid-19 local testing / vaccinations and continuing with remote working and social distancing to support staff and patient safety



- Greater use of digital such as virtual patient management to increase planned care activity, improve patient care and support new services
- Working with health and social care partners to reduce delayed discharges, maximise independence and effectively manage unscheduled care.

NHS Greater Glasgow and Clyde has adapted performance monitoring and reporting to reflect the Clinical Prioritisation Framework

88. 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.

89. 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.

90. NHS Greater Glasgow and Clyde has adapted its internal performance reporting to reflect this and has reported against the trajectories in its remobilisation plans. Performance updates have been considered at regular intervals by the board and relevant committees throughout 2020/21, and board papers can be accessed by the public through the NHS Greater Glasgow and Clyde website.

91. The performance scorecard at the end of March 2021 sets out performance against the targets and trajectories in the board's Remobilisation Plan 2. This report shows activity was on target for 10 out of 14 indicators. Areas of activity not on target at this point included the number of accident and emergency attendances and four-hour breaches, the number of delayed discharges and cancer 31 days referral to treatment.

92. The latest performance report from August 2021 highlights that the format of performance reporting will continue to be reviewed and tailored. In August 2021, performance reported against trajectories set out in the board's Remobilisation Plan 3 is on track for seven out of the eleven indicators.

93. During the period April to June 2021 positive progress was reported in a number of key areas including:

- Performance by far exceeded trajectory in relation to the number of key diagnostic tests carried out with a total of 1,981 more scopes and 44,033 more imaging tests carried out than planned.
- New outpatient activity was 2.3 per cent above the trajectory the board saw 1,350 more new outpatients either in person or virtually than planned.
- A total of 3,785 more inpatient / day cases were seen than planned.

• The number of eligible patients accessing psychological therapies was on target. NHS Greater Glasgow and Clyde was the best performing territorial health board in Scotland in relation to the number of patients starting their psychological therapy treatment based on the latest published data for the quarter ending March 2021 that shows 89.7% of patients started their treatment within 18 weeks of referral against the national target of 90%.

5. Value for money | 30

94. Whilst positive progress continues to be made, there is still a waiting list backlog and there are areas where performance has been more challenging, including:

- Number of delayed discharges is 39.6 per cent above the target for April to June 2021. Addressing this is key priority for the board and its health and social care partners. Adults with Incapacity (AWI) present the most significant challenge.
- The number of eligible patients seen by the Child and Adolescent Mental Health Services (CAHMS) was 21.4 per cent below target for the period April to June 2021. Improvement actions being implemented include recruitment of staff, contact and support for families with children waiting more than 40 weeks, overbooking first appointments due to high levels of Do Not Attends (DNAs), group therapy sessions.
- Cancer 31 days referral to treatment activity was 19.8 per cent below target in the period April to June 2021. All cancer patients awaiting surgery continue to be reviewed on a weekly basis and cases are booked for surgery in line with urgency categories. Despite activity levels being lower than planned, the 31 days cancer waiting times performance has been consistently above target during the pandemic.

Covid-19 has had a significant impact activity and waiting lists

95. The 2020/21 annual report and accounts include the position at the end of March 2021 on the board's performance against the delivery of key service priority milestones rather than the previously reported waiting times and access targets. Exhibit 7 demonstrates how activity and waiting times have been impacted by Covid-19.

Exhibit 7 Trends in demand and activity per acute services

Demand				% change
		Monthly March 2020 to March 2021	24.007	
Number waiting for diagnostic	23,254		31,887	37.1%
tests	20,201	\sim		01.170
		Quarterly March 2020 to March 2021	27,515	
Number of patients waiting for an inpatient or day case			27,010	23.5%
admission	22,274			
	72,515	Quarterly March 2020 to March 2021	96,885	
Number of patients waiting for a	12,010		00,000	33.6%
new outpatient appointment				
Activity				
	4,759	Monthly March 2020 to March 2021		
Number of scheduled elective operations in theatre system	1,700		3,724	-21.7%
operations in theatre system				
	18,430	Quarterly March 2020 to March 2021		
Number of inpatient and day case admissions	,		10,253	-44.4%
	87,678	Quarterly March 2020 to March 2021		
Number of new outpatient appointments			74,124	-15.5%
Length of waits				
		Monthly March 2020 to March 2021		
Number waiting longer than 6 weeks for diagnostic tests			13,477	203.4%
	4,442	/ Ouertarly March 2020 to March 2021		
Number of patients waiting		Quarterly March 2020 to March 2021	18,104	
longer than 12 weeks for an				98.9%
inpatient or day case admission	9,101	Cuartantic March 2020 to March 2021		
Number of patients waiting		Quarterly March 2020 to March 2021	50,450	
longer than 12 weeks for a new				152.9%
outpatient appointment	19,951	/		

Source: Public Health Scotland



96. The data shows that activity and waiting times have been significantly impacted by Covid-19. In particular, the number of people waiting more than six weeks for a diagnostic test has increased by 203 percent. Similarly, the number of people waiting more than 12 weeks for an outpatient appointment has increased by 153 per cent. This is reflected in the board's performance against the national waiting time standard - outpatients waiting less than 12 weeks. Performance against this standard has fallen from 71.7 per cent at 31 March 2020 to 47.5 per cent at 31 March 2021.

97. Despite Covid-19, NHS Greater Glasgow and Clyde has managed to maintain or improve performance year on year against most of the national waiting time standards. Activity levels are improving, and the board has recently reported that it is on track to deliver against its new outpatient activity trajectory included in the Remobilisation Plan 3.

NHS Greater Glasgow and Clyde has developed a Best Value framework

98. <u>*Ministerial guidance to Accountable Officers*</u> for public bodies and the <u>Scottish Public Finance Manual</u> (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

99. NHS Greater Glasgow and Clyde aims to embed best value across the organisation through a continual drive for improvement. The board's transformation programme, Moving Forward Together, aims to design a new system of care in the most effective way to provide safe, effective, person centred and sustainable care to meet the current and future needs of the population and to provide best value.

100. The board's Financial Improvement Programme identifies projects to deliver efficiencies across the organisation. These efficiencies may identify changes required to processes or services with an aim to achieve financial savings but also to improve service delivery.

101. This process could be further enhanced with the production of an annual update detailing the arrangements and processes that support the seven characteristics set out in guidance issued to Accountable Officers by the Scottish Government. This should then be considered by the board or appropriate committee.

Recommendation 5

Prepare an annual update detailing the arrangements and processes in place that support each of the Best Value characteristics.



National performance audit reports

102. 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 <u>Appendix 4</u>.

103. The NHS Overview Report on the 2020/21 audits will include a review of the response to the Covid-19 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

lssue/risk	Recommendation	Agreed management action/timing
1. Existence of assets In our 2019/20 annual audit report we recommended that NHS Greater Glasgow and Clyde establish appropriate arrangements for the verification of assets. Asset listings were sent out to confirm the accuracy of the listing. However, only a limited number of responses were provided and so the exercise is incomplete.	The arrangements for the verification of assets should be fully implemented. This includes establishing management responsibilities within departments for ownership of assets and the timeous return of relevant documentation to the fixed asset team within finance to ensure accounting records are complete. Paragraph 38.	Agreed. Although we also note the materiality proviso. Responsible officer Head of Financial Services Agreed date 31 March 2022
Risk – The underlying fixed assets records are incomplete.		
 2. Impairment review The fixed asset team rely on local teams to inform them of impairments as they occur. Risk – There is a risk that the accounts are incorrectly stated. 	A formal impairment review should be carried out annually by the Capital Planning Group and provided to the fixed asset team to support the preparation of the annual accounts. Paragraph 39.	Agreed. The Head of Finance Capital will ensure a formal impairment review is carried out through the Capital Planning Group each year and update the Fixed Asset team on the outcome of that review to support the preparation of the annual accounts. Responsible officer Head of Finance – Capital Agreed date 31 March 2022

lssue/risk	Recommendation	Agreed management action/timing
 3. Financial Sustainability The board achieved its 20/21 savings target of £108 million but was largely reliant on non-recurring solutions. A target has been set to reduce the underlying deficit from £93 million to £63 million in 21/22. Risk – The savings requirements may not be identified and achieved. 	Develop and implement detailed savings plans over the medium term which are aligned to the Remobilisation Plan and Moving Forward Together programme. The savings plans should articulate how savings will be achieved. Paragraph 57.	The board will continue to develop and implement medium term savings and financial plans aligned to the Remobilisation Plan and Moving Forward together in line with the timetables set out by Scottish Government, which are influenced by the ongoing pandemic. Responsible officer Director of Finance Agreed date Ongoing
 4. Medium term financial planning NHS Greater Glasgow and Clyde's current medium term financial plan is up to 2022/23 and was prepared prior to the pandemic so is out of date. The finalisation of a three year financial and capital plan has been identified by the board as a key financial objective. Risk – financial sustainability is not achieved in the medium term. 	Develop a robust medium term financial plan with stakeholders and partners to include a range of different scenarios to reflect the uncertain environment that exists and be aligned with the board's transformation and savings programmes to support a reduction in the underlying deficit. Paragraph 60.	The board will continue to develop and implement medium term savings financial plans aligned to the Remobilisation Plan and Moving Forward together in line with the timetables set out by Scottish Government, which are influenced by the ongoing pandemic. We continue to work with Scottish Government on medium term financial planning. Responsible officer Director of Finance Agreed date Ongoing
 5. Review of Best Value arrangements The best value process could be further enhanced with the production of an annual update. Risk – opportunities for improvement may be missed 	Prepare an annual update detailing the arrangements and processes in place that support each of the Best Value characteristics. Paragraph 98.	Agreed. The Financial Planning & Performance Committee will prepare an annual Best Value update detailing the arrangements and processes in place to support each of the Best Value characteristics. Responsible officer Head of Corporate Governance Agreed date 30 June 2022

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
6. Performance and Accountability Reports The Performance and Accountability reports were not provided as part of the financial statement package within agreed timetables. Risk – The audit is delayed due to the absence of comprehensive complete report and underlying documentation within the annual accounts audit package.	We recommend that officers review and refine the project plan for the delivery of the Performance and Accountability Reports to ensure that it is realistic. Project management principles should be applied to ensure they are delivered within agreed timescales and to an appropriate standard.	Complete
 7. Governance Statement The Governance Statement which forms part of the Accountability Report did not have all the assurance statements and certificates from Directors available for audit to review. The level of detail within some assurance statements was below expectations. Risk – The Accountable Officer is not provided with the assurances required and the governance statement omits a significant issue. 	Directors should ensure that their assurance statement and certificate is completed comprehensively, within the required timeframe and to appropriate quality standards for the Accountable Officer's review and consideration prior to the drafting of the Governance Statement.	Complete
 8. Existence of Assets A sample of portable assets selected from the fixed asset register identified instances where assets had previously been disposed but no notification was provided to finance to update their records. Furthermore, we noted that the verification exercises undertaken by the fixed asset 	Establish appropriate arrangements for the verification of assets. This includes establishing management responsibilities within departments for ownership of assets and the return of relevant documentation to the fixed asset team within finance to ensure accounting records are complete.	Superseded by Recommendation 1

lssue/risk	Recommendation	Agreed management action/timing
team generally has a very poor response rate and contribute to records being out of date or incomplete.		
Risk – The underlying fixed asset records are incomplete.		
9. Accounting for Research and Development Contracts	Inject more pace into the continued review of deferred income to ensure full	Complete
Although work has been undertaken on reviewing deferred income to ensure compliance with IFRS15 further work is still required to ensure full compliance.	compliance with the requirements of IFRS15.	
Risk – The board's accounts may be misstated.		
 10. Stock valuations Officers were unable to undertake year end stock counts at most manual stock sites in March 2020 due to the Covid-19 pandemic. Prior year stock valuations were used in the absence of updated information. The inventory balance within the statement of financial position includes prior year stock valuations of £11.5 million. Risk – There is a risk that stock valuations are not accurate. 	Establish arrangements to ensure updated stock valuations are obtained prior to March 2021 in the event of continued disruption resulting from Covid-19.	Complete
11. Review of Central Legal Office (CLO) post year end reports There is no process in place to obtain and review information received by the CLO after 31 March to determine if any adjustments are required to be processed	We recommend a process is established to identify, obtain and review details of claims received by the CLO after 31 March but which relate to the accounting period of the financial statements.	Complete

Issue/risk	Recommendation	Agreed management action/timing
through the financial statements.		
Risk – There is a risk that the provisions within the accounts are understated and do not reflect all the claims received by the CLO.		
12. Finance Capacity	Take steps to ensure that the	Complete
The finance function has experienced staffing changes over the past year which affected officers involved in the preparation of the financial statements. Temporary arrangements were established however longer-term solutions are required.	finance function is appropriately resourced with experienced, skilled and knowledgeable staff and to develop and implement appropriate succession plans.	
Risk – The finance function is not appropriately resourced in terms of experience and knowledge, potentially leading to issues with financial management and accounts preparation.		
13. Medium to long term financial balance	Develop and implement detailed savings plans over	Superseded by Recommendation 3 and 4
The board has had to achieve significant savings targets for a number of years. The 2020/21 financial plan sets out a saving requirement of £361.9 million over the next three years. Medium to long term recurring financial balance requires a whole service redesign approach.	the medium term which are aligned to the Re-mobilisation plan and Moving Forward Together programme. The savings plans should articulate how savings will be achieved.	
Risk – Savings requirements for the longer term may not be identified and achieved without whole service		

redesign.

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 the management override of controls International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.	Detailed testing of journal entries. Review of accounting estimates. Focussed testing of accruals and prepayments. Evaluation of any significant transactions that are outside the normal course of business.	Results: We undertook detailed testing of journal entries, accruals and prepayments as planned. We also reviewed accounting estimates and transactions for appropriateness. Conclusion: We did not identify any instances of management override of control.
2. Risk of material misstatement caused by estimations and judgements There is a significant degree of subjectivity in the measurement and valuation of non-current assets and provisions. This subjectivity represents an increased risk of misstatements in the financial statements.	Test management's controls and procedures over these estimations and judgements. Review of the work of management's expert valuers. Substantive testing of selected year-end valuation reports. Review information provided by the Central Legal Office. Focussed substantive testing within provisions on values	Results: We reviewed the work of the Central Legal Office and the valuer and ensured that their conclusions were accurately reflected in the balances disclosed in the accounts, including substantive testing of a sample of individual valuations and items making up the provisions balance. We assessed the reasonableness of the assumptions applied to the
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Audit risk	Assurance procedure and balances which are derived by valuation and estimation Review management's assessment of the appropriateness of the assumptions used in the valuation of certain assets and liabilities.	Results and conclusions estimates and assessed the completeness of provisions through third party
		confirmation from the Central Legal Office and our knowledge of the health board.
		Conclusion: No issues were identified with the valuation of non-current assets. We identified some legal cases that had been omitted from the clinical and negligence provision. This was an isolated error and has been adjusted in the accounts. Exhibit 2
3. Existence of assets In 2019/20 we identified a risk of material misstatement around the existence of assets. We noted limited asset verification work is completed within the board and arrangements in place to	Review of arrangements in place within the board for verifying assets. Focussed verification work undertaken on a sample of portable assets.	Results: An asset verification exercise was initiated in year. However, only a limited number of responses were provided and so the exercise was incomplete, and we were unable to place assurance on the process.
inform the fixed asset team of disposals or changes in assets location or condition are inconsistent or not implemented.		We carried out additional testing to obtain assurance over the existence of portable assets. All assets selected could be verified to photographic evidence.
Our asset verification work focused on portable assets as these assets are more likely to be moved around and therefore could be more difficult to locate. We reported our findings in the 2019/20 Annual Audit Report. Management agreed to establish appropriate		Conclusion: The new asset verification process should be fully implemented in 2021/22. The timing should be aligned with the accounts preparation process so that management are provided with assurance that the fixed asset register is complete and accurate.
arrangements for the verification of assets. This included establishing management responsibilities within departments for ownership of assets and the return of relevant		Paragraph 38.

return of relevant

Audit risk

Assurance procedure

Results and conclusions

documentation to the fixed asset team within finance to ensure accounting records are complete.

4. Impact of additional funding due to Covid-19 on the financial statements

The Covid-19 pandemic has resulted in significant financial pressures for the Health Board. The Scottish and UK governments have announced a range of additional funding streams to support frontline services and help the organisation manage the financial pressures caused by Covid-19. This has also resulted in an associated increase in expenditure with some new expenditure streams. Total additional funding in 2020/21 is expected to be in the region of £180 million.

Assess how the Board has processed and controlled the additional funding and associated expenditure.

Assess how the additional funding and associated expenditure impacts on the financial statements.

Review the Annual Report and Accounts and consider how the additional funding and associated expenditure has been reported. **Results:** Review of financial monitoring arrangements, including separate reporting of Covid-19 income and expenditure.

Review of control environment found no significant changes because of Covid-19 and controls were operating effectively throughout the year.

Review of accounting treatment of Covid-19 specific items of income / expenditure including additional allocations, PPE and testing kits, £500 bonus payments, hospice sustainability payments.

Review of assurances received over change in recognition of certain Family Health Service expenditure from actuals to estimates due to Covid-19.

Conclusion: The accounts have been adjusted to ensure that PPE /testing kits (<u>Paragraph 21.</u>) and hospice sustainability payments (<u>Exhibit 2</u>) are correctly accounted for. No other issues in respect of this risk have been identified.

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

Audit risk

Assurance procedure

5. Financial sustainability -Short Term

Whilst the board are projecting a year end break even position financial challenges going forward remain significant. The board received funding in 2020/21 in relation to additional costs resulting from the covid-19 pandemic and funding for savings not achieved.

The board will face financial challenges in the short to medium term as routine services continue to remobilise. The Financial Improvement Programme will be important in driving forward identification and achievement of future efficiency savings within the board. Monitor updates to the Financial Plan and the ongoing financial position.

Review the monthly financial returns to the SGHSCD.

Review the financial monitoring reports to the board, acute services committee, and finance, planning and performance committee.

Attendance at the Finance Planning and Performance Committee.

Test a sample of transactions substantively before and after the year end to confirm expenditure and income have been accounted for in the correct financial year.

Review financial and savings plans over the medium term which are aligned to the Remobilisation Plan and Moving Forward Together programme.

Results and conclusions

Results: We reviewed the board's financial management arrangements and concluded that these are appropriate. The board achieved its target savings in 2020/21 and delivered against its financial targets. However, most savings were delivered through nonrecurring solutions. The Financial Improvement Programme and Moving Forward Together were impacted by Covid-19 but action is being taken to drive this forward in 2021/22.

Conclusion: The board needs to continue to develop and implement detailed savings plans over the medium term to reduce the underlying deficit over the next few years. A medium term financial plan should be developed in line with the timetables agreed with Scottish Government.

6. Financial Capacity

Our 2019/20 AAR detailed that the finance function experienced staffing changes over the past year which affected officers involved in the preparation of the financial statements. Temporary arrangements were established, and the longer-term solution involved a restructure of the finance function. The first part of the finance restructure project is complete with the We shall have early discussion with officers regarding the annual accounts timetable. Discussions will continue throughout the course of the audit.

We will issue a working paper checklist to outline requirements and agree timescales for the receipt of unaudited accounts.

Paragraph 57.

Results: We received the unaudited annual report and accounts in line with our agreed timescales and the working papers package provided was good quality.

Phase 1 of the finance restructure was implemented in year and Phase 2 has been developed. This includes the recruitment of additional professionally qualified staff.

Audit risk

Assurance procedure

appointment of three Assistant Director of Finance posts. The finance function is currently in a period of transition.

Further review of the wider finance function has been undertaken and it will be important to ensure appropriate provision of experience and knowledge is in place across finance to mitigate any potential issues with financial management or accounts preparations.

Results and conclusions

Conclusion: Changes within the finance structure at a senior level are working well. Phase 2 of the finance restructure has been developed to further improve the capability and capacity of the finance function.

Paragraph 40.

7. Senior Management Capacity

NHS Greater Glasgow and Clyde has experienced exceptional challenges this year; the Covid 19 pandemic, continued special measure status, the commencement of a public inquiry into the Queen Elizabeth University Hospital (QEUH) and litigation against the QEUH contractor. There is a risk that this may impact on Board and Senior Management capacity which could potentially result in a reduced wider strategic and operational oversight. This could have a detrimental impact on service delivery and damage broader partnership working.

Assessing impact on Board and Senior Management capacity.

Understand the impact on third and fourth tier management in terms of capacity and ability to respond to increased expectations. **Results:** Changes to the finance structure at a senior level were implemented during 2020/21 and seem to be working well.

Paragraph 40.

Resources have been increased to support the Scottish Hospitals Public Inquiry.

Paragraph 81.

The board's RMP3 that was submitted to Scottish Government outlines actions taken to strengthen management capability and capacity across the board.

Conclusion: There is evidence that the board has taken action to strengthen management capability and capacity during the year. However, the challenges highlighted in our audit risk still exist and the structures in place to ensure the board is well equipped to respond to these challenges should be kept under review.

Appendix 3. Summary of uncorrected misstatements

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

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1. FHS Expenditure		2,352		
Trade Payables			2,352	
Net impact		2,352	2,352	

Notes:

1. Entry 1 relates to a year end over accrual of FHS cash limited expenditure which was included within the accounts. The FHS expenditure would reduce by £2,352k and so the impact on the reported outturn position would be increased savings against the RRL.

Appendix 4. 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 Greater Glasgow and Clyde

2020/21 Annual Audit Report

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NHS Greater Glasgow and Clyde 2021/22 Annual Audit Report





Prepared by Audit Scotland July 2022

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Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified. The financial statements have been prepared to a high standard and are supported by a comprehensive set of working papers
- 2 We adopted a hybrid working approach for the audit which supported a return to the pre-pandemic reporting deadline of 30 June 2022.
- 3 All significant misstatements identified by audit have been adjusted.

Financial management and sustainability

- 4 NHS Greater Glasgow and Clyde operated within its Revenue and Capital Resource Limits. The financial impact of Covid-19 on the health board and its six Integration Joint Boards (IJBs) is estimated to be £284 million. All Covid-19 costs incurred during 2021/22 were funded by the Scottish Government on a non-recurring basis.
- 5 The board delivered £34 million of recurring savings in year, which was 76 percent of its target. The remaining financial gap of £118 million was addressed by non-recurring solutions and has been carried forward into 2022/23.
- 6 In line with Scottish Government guidance, NHS Greater Glasgow and Clyde developed a one-year financial plan for 2022/23. The overall financial challenge identified is £173 million.
- 7 The Financial Improvement Programme for 2022/23 sets out a recurring savings target of £54 million but plans still need to be developed for £34 million, or 63 percent of this target. Savings initiatives will need to be developed at pace to ensure that the board can achieve financial balance in 2022/23 and into the future. The board plans to rely on non-recurring solutions to address the remaining funding gap of £119 million. The reliance on non-recurring solutions to finance pressures is not sustainable in the medium and long term.

Governance, transparency, and value for money

8 NHS Greater Glasgow and Clyde has appropriate governance arrangements in place that support scrutiny of decisions made by the board.

- 9 Significant work has taken place in relation to concerns over infection prevention and control at the Queen Elizabeth University Hospital and Royal Hospital for Children, and in June 2022, the board was de-escalated from stage four to stage two of the NHS Scotland Board Performance Escalation Framework on this matter.
- **10** The board continues to assess, and where appropriate, update the arrangements it has in place to respond the Scottish Public Hospitals Inquiry and the legal proceedings against the parties responsible for delivering the Queen Elizabeth University Hospital and Royal Hospital for Children construction project. However, the challenges are significant, and are placing additional pressures on the board that need to be balanced with other priorities.
- 11 NHS Greater Glasgow and Clyde's remobilisation plan was revised part way through 2021/22 to reflect the high levels of Covid-19 that were present at that time. Performance remains challenging in several areas, but overall activity levels are gradually being restored.
- 12 In response to our recommendation, an annual review of the arrangements in place at the board to secure Best Value has been prepared and presented to the Audit and Risk Committee for assurance.

Introduction

1. This report summarises the findings from our 2021/22 audit of NHS Greater Glasgow and Clyde (the board). The scope of our audit was set out in our Annual Audit Plan presented to the 15 March 2022 meeting of the Audit and Risk 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 <u>Code of Audit Practice 2016</u>
- 2. The main elements of our audit work in 2021/22 have been:
 - an audit of NHS Greater Glasgow and Clyde's 2021/22 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of NHS Greater Glasgow and Clyde's key financial systems
 - consideration of the four audit dimensions.

3. The global coronavirus pandemic continued to have a considerable impact on NHS Greater Glasgow and Clyde during 2021/22. This included increased costs associated with the board's response to Covid-19, higher sickness absence levels and ultimately the need to pause the delivery of elective treatment. We have considered the risks emerging from the pandemic that impact our audit work and have adapted our work to reflect this.

Adding value through the audit

4. We add value to NHS Greater Glasgow and Clyde 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 3) and good practice guides.

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

Responsibilities and reporting

6. NHS Greater Glasgow and Clyde 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 Greater Glasgow and Clyde 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 <u>Code of Audit Practice</u> <u>2016</u> and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the audit dimensions that frame the wider scope of public sector audit namely, financial management including the financial position and arrangements for securing financial sustainability, the suitability and effectiveness of corporate governance arrangements and the appropriateness and effectiveness of the performance management and the auditor can be found in the <u>Code of Audit Practice 2016</u>.

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 <u>Appendix 1</u> setting out specific recommendations, responsible officers, and dates for implementation. It also includes actions from last year and the progress that has been made.

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the <u>Code of Audit Practice 2016</u> and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £415,810, 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 <u>www.audit-scotland.gov.uk</u> in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

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

15. The procurement process for the new round of audit appointments was completed in May 2022. From next year (2022/23) Ernst and Young will be the appointed auditor for NHS Greater Glasgow and Clyde. We are working closely with the new auditors to ensure a well-managed transition.

16. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

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

1. Audit of 2021/22 annual report and accounts

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

Main judgements

Our audit opinions on the annual accounts are unmodified. The financial statements have been prepared to a high standard and are supported by a comprehensive set of working papers.

We adopted a hybrid working approach for the audit which supported a return to the pre-pandemic reporting deadline of 30 June 2022.

All significant misstatements identified by audit have been adjusted.

Our audit opinions on the annual report and accounts are unmodified

18. The board approved the annual report and accounts for the year ended 31 March 2022 on 28 June 2022. As reported in the independent auditor's report:

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

We successfully adopted a hybrid working approach

19. In 2020/21, the restrictions imposed due to Covid-19 meant that we carried out all aspects of our audit work remotely. This created some challenges, and our audit work took longer to complete. For our 2021/22 audit we were able to meet with finance staff and perform some of our audit procedures on-site at Caledonia House.

20. We adopted a hybrid working approach, which means we selected the most efficient and effective means of carrying out our work. In some cases, this involved face-to face meetings, access to the board's systems and physical

audit evidence. For other tasks, remote working was deemed to be more appropriate.

The annual report and accounts are due to be signed in line with pre-pandemic timetables

21. The reporting deadline for NHS accounts is 31 August 2022, which remains an extension from the pre-pandemic deadline of 30 June. Despite this, we agreed an ambitious target with management to return to the pre-pandemic reporting timetable.

22. The unaudited annual report and accounts were received in line with our agreed audit timetable on 9 May 2022. The working papers provided to support the accounts were of a good standard and the audit team received excellent support from finance staff. This helped ensure the final accounts audit process ran smoothly.

Overall materiality remains unchanged at £30 million

23. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts, and we concluded that the levels established at the planning phase remain appropriate. Our group and single entity levels of materiality were the same and are summarised in <u>Exhibit 1</u>.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£30 million
Performance materiality	£20 million
Reporting threshold	£250 thousand

Source: Audit Scotland

A resolution has been agreed for all significant findings from the audit

24. 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. Significant findings from the audit are summarised in <u>Exhibit 2</u>.

Exhibit 2 Significant findings from the audit of the financial statements

Issue

1. Misclassification of income

Our testing identified a £20 million transaction which had been incorrectly coded to miscellaneous expenditure, rather than income. This is a classification error and means that both income and expenditure were understated by £20 million. There is no impact on the net expenditure reported in the year. Given the nature of this transaction and the results of our detailed testing of other income transactions, we were able to conclude that this was an isolated instance. The transaction related to income received from Glasgow City Integration Joint Board which relates to unscheduled care funding.

Resolution

The accounts have been amended to correctly classify this transaction as income received in the year. Both income and expenditure have increased by £20 million and there is no impact on the net expenditure reported in the year.

2. Payments to hospices

Guidance on the accounting treatment of hospice sustainability payments advised that NHS boards are acting as agents for the Scottish Government in respect of these transactions. This means that NHS boards should not account for the expenditure and income associated with these transactions. Although the payments were correctly removed from the board's Statement of Consolidated Net Expenditure in the unaudited accounts, we noted that the amounts were still reflected in the cash drawn down from Scottish Government. The total value of these payments was £3.3 million. The accounts have been adjusted to remove the cash drawn down relating to payments to hospices under agency arrangements. An explanatory note has been included within the financial performance section of the performance report to reconcile the difference and set out this agency arrangement, including the values concerned.

3. Capitalisation of assets under construction

Our detailed testing of assets under construction identified £3.9 million of enhancement expenditure relating to replacement parts for radiotherapy equipment that should have been capitalised in year. This means that assets under construction in the unaudited accounts were overstated by £3.9m and information technology was understated by an equivalent amount. The property plant and equipment disclosure note has been amended to decrease the net book value of assets under construction by £3.9m, with an equivalent increase to information technology. There is no impact on the depreciation charge for the year due to the timing of the expenditure being in the first quarter. In addition, there is no impact on the overall property plant and equipment balance reported on the statement of financial position.

Recommendation 1

(See below and refer <u>Appendix 1</u>, action plan)

Issue

4. Capitalisation of land

The land on which the new Clydebank Health Care Centre has been built was acquired on 22 November 2019. We found that the land was not capitalised at the point of acquisition but instead, upon completion of the health care centre. This is a classification error and has no impact on the transactions or balances reported in the main financial statements as land is not subject to a depreciation charge. We performed additional audit procedures to confirm that this error was isolated.

5. Donated asset disposal adjustment

Donated asset disposals and the related depreciation have been adjusted by £862k to correct a prior year omission. The adjustment only impacts the movements in donated asset disposals and depreciation shown in the property plant and equipment disclosure note. The impact on the overall net book value is nil.

Resolution

The land element of the Clydebank Health Care Centre is correctly classified as land in 2021/22. A prior year adjustment is not required as the value involved is significantly below our materiality level.

Recommendation 1

(See below and refer <u>Appendix 1</u>, action plan)

The disclosure note has been amended. There is no impact on the net book value of property plant and equipment.

Source: Audit Scotland

Recommendation 1

A review of the capitalisation process should be carried out. This should include consideration of the communication channels between the capital finance section and other areas of the business, including the capital planning group, to ensure that asset developments with capital accounting implications can be processed in a timely manner.

25. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. Exhibit 3 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified Significant risks of material misstatement in the financial statements

Aud	it	risk	
7100		iiiiii	

1. Risk of material misstatement caused by fraud due to management override of controls

As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.

Assurance procedure

Review the design and implementation of controls over journal entry processing.

Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity.

Test journals at the year end and post-closing entries, focussing on significant risk areas.

Evaluate significant transactions outside the normal course of business.

Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Results and conclusions

Results & Significant Judgements: We undertook the assurance procedures as planned and found:

- the authorisation control over journal entries continues to operate effectively
- management are not aware of inappropriate or unusual activity
- detailed testing of journal entries and unusual transactions did not identify any errors
- the methodology used in preparing significant accounting estimates is reasonable and consistent with the previous year.

Conclusion: We did not identify any instances of management override of control.

2. Risk of material misstatement due to estimation and judgement in accruals

The impact of Covid-19 resulted in an exceptional increase in the value of accruals reported in the 2020/21 annual accounts. There is a significant amount of estimation and judgement applied to the valuation and classification of such balances. Covid-19 has continued to impact the board in 2021/22, including the ability to deliver services (e.g. elective treatment) and capital projects. There is also continued pressure on the

Review management's controls over significant accruals reported in the accounts.

Detailed testing of material accruals balances. To include an assessment of the reasonableness of methodology applied in any estimation and testing of completeness and accuracy of underlying data.

Review of the design and implementation of controls over systems that provide the source of information for estimates e.g. Trakcare. **Results & Significant Judgements:** We undertook the assurance procedures as planned and found:

- the methodology used in preparing significant accounting estimates is reasonable and consistent with the previous year
- our understanding of the Trakcare system is consistent with the prior year
- amounts applied to the activity shortfall accrual could be agreed back to the patient information system (Trakcare)

Audit risk	Assurance procedure	Results and conclusions
workforce which may impact on annual leave outstanding at the year end, and so the related accrual.	Review of related disclosures.	 additional disclosures are required to highlight the degree of estimation and judgement applied to significant accruals.
		Conclusion: We have concluded that the methodology applied in the estimation of significant accruals balances is reasonable and consistent with the prior year. Detailed testing has not identified any errors in the underlying data.

Other areas of audit focus

26. In addition, as part of our 2021/22 Annual Audit, we identified other areas where we considered there to be risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of these risks, we did not consider these to represent significant risks. These areas of specific audit focus were:

Estimation in the valuation of land and buildings:

27. At 31 March 2022 the board held land and buildings with a net book value of £2,192 million. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist assumptions and estimates, and changes in these can result in material changes to valuations. There are no significant matters arising from our work in this area that we need to bring to your attention.

Estimation in the provision for clinical and medical negligence claims

28. The board includes a provision for estimated costs relating to clinical and medical negligence claims in the accounts and, at 31 March 2022, this balance was £146 million. Reliance is placed on the details provided by the NHS Scotland Central Legal Office (CLO) to quantify amounts provided. There is a significant amount of professional judgement applied by the CLO in arriving at these figures.

29. There are no significant matters arising from our work in this area at NHS Greater Glasgow and Clyde that we need to draw to your attention. Nationally, Audit Scotland's central Professional Support team evaluated the appropriateness of the methodology adopted by the Scottish Government to estimate the total national obligation for CNORIS and concluded that it is reasonable. However, detailed testing of the underlying data identified an isolated error that resulted in the total national obligation being overstated by £8.696 million.

30. Following Audit Scotland communicating the error to the Scottish Government, health boards were notified of a corrected liability on 18 May

2022. For NHS Greater Glasgow and Clyde, the impact was a reduction of $\pounds 2.058$ million to its share of the liability. This has been adjusted in the audited accounts.

Significant misstatements identified by audit have been adjusted

31. The most significant classification errors identified through our audit have been outlined in <u>Exhibit 2</u> above. Other misstatements relate to the incorrect classification of transactions and balances and the overstatement of the FHS accrual. All misstatements have been adjusted by management except for:

- the FHS accrual which is overstated by £2.267 million based on actual information received after the accounts were prepared. Management have not adjusted for this item as they consider the amounts are not material in the context of the financial statements; and
- a minor (£439k) classification error between NHS Scotland and non-NHS receivables balances.

32. We were also notified by management of two adjustments to the annual accounts after they were presented for audit. This includes the impairment of an asset where the conditions existed prior to 31 March 2022, and additional accruals for staff costs that relate to 2021/22. Appropriate adjustments have been made in the accounts and evidence has been provided to audit to support the changes made. A late change in accounting guidance also required the board to make an adjustment to account for an allocation of LFD testing kits donated by the UK Government. The impact of this was an increase in expenditure on PPE and Testing Kits of £17.8 million and an equivalent increase in income from donations. There is no impact on the net expenditure reported for the year.

Several changes were required to the remuneration report following audit

33. Our audit of the remuneration and staff report identified issues with the content and accuracy of the information presented. We recognise that this was largely due to changes in the disclosure requirements in 2021/22. Appropriate amendments have been agreed to ensure the final version of the remuneration and staff report is accurately presented in accordance with applicable guidance.

34. Going forward, management should ensure that the remuneration and staff report is subject to a cold review by a person independent of the preparation process before being submitted for audit.

Recommendation 2

The remuneration and staff report should be subject to a cold review by an individual independent of the preparation process before being submitted for audit.

Progress was made on prior year recommendations

35. NHS Greater Glasgow and Clyde has fully implemented all but one of the actions due to be completed by end June 2022 and partially completed the remaining one. Two of the prior year recommendations related to financial sustainability and the agreed management response was to adhere to Scottish Government timelines. The board has adhered to these timelines during the year, but the recommendations still stand. For actions not yet fully implemented, revised responses and timescales have been agreed with management, and are set out in <u>Appendix 1</u>.

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 Greater Glasgow and Clyde operated within its Revenue and Capital Resource Limits.

The financial impact of Covid-19 on the health board and its six Integration Joint Boards (IJBs) in 2021/22 is estimated to be £284 million. All Covid-19 costs incurred were funded by the Scottish Government on a non-recurring basis.

The board delivered £34 million of recurring savings in year, which was 76 percent of its target. The remaining financial gap of £118 million was addressed by non-recurring solutions and has been carried into 2022/23.

NHS Greater Glasgow and Clyde operated within its Revenue and Capital Resource Limits

36. 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. In response to the pandemic throughout 2021/22, additional non-recurring funding allocations were provided based on the estimated financial impacts of the pandemic on the board.

37. <u>Exhibit 4</u> shows that the board operated within its financial limits during 2021/22. Actual revenue expenditure was marginally lower than forecast and as a result NHS Greater Glasgow and Clyde reported a small underspend.

Exhibit 4

Performance against resource limits in 2021/22

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	3,219.305	3,218.944	0.361
Non-core revenue resource limit	85.950	85.950	0
Total revenue resource limit	3,305.255	3,304.894	0.361
Core capital resource limit	85.730	85.724	0.006

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Non-core capital resource limit	3.791	3.791	0
Total capital resource limit	89.521	89.515	0.006
Cash requirement	3,251.028	3,247.769	3.259

The outturn on cash requirement differs from the cash limit set due to the treatment of payments to hospices, which, in line with recommended practice, have been treated on an "agency" basis.

Source: NHS Greater Glasgow and Clyde Annual Report and Accounts 2021/22

The financial impact of Covid-19 continued into 2021/22

38. The financial impact of Covid-19 was tracked throughout the year and reported to Scottish Government. <u>Exhibit 5</u> shows the Covid-19 expenditure reported by the board and the six Integration Joint Boards (IJBs) that are in formal partnership arrangements with NHS Greater Glasgow and Clyde Health Board. The net costs identified were fully covered by additional funding allocations from the Scottish Government.

39. NHS Greater Glasgow and Clyde reported net expenditure of £208 million relating to Covid-19 and remobilisation, excluding IJB costs. The major areas of additional expenditure included:

- Covid-19 test, trace and vaccinations at a cost of £52 million
- an increase in costs for infection prevention and control of £22 million
- additional hospital bed capacity at a cost of £14 million
- additional staff costs of £36 million
- funding to offset £63 million of unachievable savings due to Covid-19.

40. The six IJBs reported equivalent costs of £76 million, with the majority of this being attributed to social care services such as homelessness and criminal justice, and children and families services.

Exhibit 5 Financial impact of Covid-19: reported to Scottish Government

	Covid-19 Net Expenditure £m	Unachieved savings £m	Net Impact of Covid-19 £m
NHS Board Board only	145	63	208
Health & Social Care Health care services Social care services	16 54	6	16 60
Total	215	69	284

Source: NHS Greater Glasgow and Clyde - Financial Performance Return 2021-22

Reserves held by Integration Joint Boards increased significantly due to late allocations from Scottish Government

41. NHS Greater Glasgow and Clyde transferred £184 million to the Integration Joint Boards at the year end to hold in earmarked reserves for future use. This was largely due to a £221 million late allocation from Scottish Government that was provided to meet Covid-19 costs and to support the continuing impact of the pandemic. The instruction from Scottish Government specified that where funding remains at the year end, this must be carried in an earmarked reserve for Covid-19 purposes in line with usual accounting arrangements for Integration Joint Boards. This is reflected in the year end reserves balances of the Integration Joint Boards.

The board remobilised its Financial Improvement Programme and achieved £34 million of recurring savings but the underlying recurring deficit has continued to grow

42. In the original budget for 2021/22, NHS Greater Glasgow and Clyde identified financial pressures of £177 million. The plan to address this included £35 million of recurring efficiency savings. Other solutions included additional funding (£20 million), non-recurring savings (£68 million), and non-recurring support (£35 million), leaving a net cash efficiency challenge of £20 million.

43. The revised financial challenge for 2021/22 was £152 million. This included a more ambitious recurring savings target of £42 million and the board has reported successful delivery of £34 million, or 76 per cent of these savings. Non-recurring solutions were identified to close the remaining financial gap. These solutions are only effective in the year they are applied and include for example, additional Covid-19 funding received. This means an underlying recurring deficit of £118 million exists going into 2022/23 which will be extremely

challenging for the health board. The health board's reliance on non-recurring solutions is unsustainable in the medium to long term.

Financial systems of internal control are operating effectively

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

45. As part of this work in 2021/22, we followed up the two areas for improvement reported in our prior year management letter. The improvements identified related to user access reviews for the payroll and HR system and a specific recommendation relating to the quarterly review of assets under construction. We confirmed that these specific actions were implemented in year, however, we have recommended further improvement to the capitalisation process through our 2021/22 audit work.

NHS NSS controls over practitioner service operated effectively during the year

46. The NHS in Scotland procures several service audits each year for shared systems. Within this suite of service audits, NHS National Services Scotland (NSS) procures service audits covering primary care payments.

47. The NHS NSS service auditor's assurance reports in relation to primary care payments was unqualified in 2021/22, however an emphasis of matter disclosure was included in relation to the lack of post payment verification checks taking place. This did not have an impact on our ability to obtain sufficient and appropriate audit evidence over primary care services.

48. NHS Greater Glasgow and Clyde has made appropriate disclosures on the matter in the 2021/22 Annual Governance Statement.

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

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

50. The board has a formal partnership with NHS Scotland Counter Fraud Services (CFS). These arrangements include the Fraud Liaison Officer circulating reports to the Audit and Risk Committee and appropriate managers. Reports from CFS highlight any referrals from NHS Greater Glasgow and Clyde and are presented quarterly to the meetings of the Audit and Risk Committee.

51. The National Fraud Initiative (NFI) is a bi-annual counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. We carried out a review of the board's participation in the current NFI exercise and A51483446

concluded that the board is adequately engaged. The approach to investigating matches is well understood and the number of matches investigated as part of the exercise appears reasonable. NFI participation is also reported to the Audit and Risk Committee.

52. Two errors have been identified through the current NFI exercise: a duplicate invoice which had already been identified through existing controls and a payroll match which related to the incorrect recording of sickness absence. No financial loss arose from these errors. In addition, a case of potential identity theft remains under investigation by the UK Home Office.

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 Greater Glasgow and Clyde developed a one-year financial plan for 2022/23. The overall financial challenge identified is £173 million.

The Financial Improvement Programme for 2022/23 sets out a recurring savings target of £54 million but plans still need to be developed for £34 million, or 63 percent of this target. Savings initiatives will need to be developed at pace to ensure that the board can achieve financial balance in 2022/23 and into the future. The board plans to rely on non-recurring solutions to address the remaining funding gap of £119 million. The reliance on non-recurring solutions to finance pressures is not sustainable in the medium and long term.

The board continues to face a significant financial challenge and reliance on non-recurring solutions is not sustainable into the medium and long term

53. <u>Exhibit 6</u> sets out the significant risks of material misstatement we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 6 Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
Financial sustainability Whilst the board is projecting a year end breakeven position, financial challenges going forward remain significant. The board is heavily reliant on non- recurring funding from	Monitor the board's financial position as reported to the board / relevant committees, including progress against the Financial Improvement Programme. Review any assessment of the board's future financial	 Results & Significant Judgements: We undertook the assurance procedures as planned and found: The financial position in 2021/22 was largely achieved by reliance on non-recurring funding
recearing randing norm		non rooannig fanalig

Audit risk

Scottish Government to achieve financial balance and has a significant underlying recurring deficit. The risk of financial sustainability remains, and the Financial Improvement Programme will be important in driving forward the identification and achievement of future efficiency savings within the board.

Assurance procedure

position (including medium term financial plan when available) and consider whether appropriate arrangements are in place to address the underlying recurring deficit.

Attendance at board and relevant committee meetings.

Results and conclusions

solutions (paragraph 43.). The underlying deficit has grown to £118 million (£93 million in 2020/21).

- Savings plans still need to be developed for a significant proportion of the recurring savings target and the board plans to place reliance on nonrecurring solutions to address most of the funding gap in 2022/23.
- A medium-term financial plan is being prepared in line with Scottish Government timelines.

Conclusion: The financial challenge that the board faces is significant. Reliance on non-recurring funding solutions is not sustainable and savings plans will need to be developed at pace to ensure that the board can achieve financial balance in 2022/23 and into the future.

NHS Greater Glasgow and Clyde's 2022/23 financial plan identified a funding gap of £173 million

54. NHS Greater Glasgow and Clyde's initial financial plan for 2022/23 was taken to the board in February 2022 and an update to this plan was presented in April 2022. The updated plan reported a slight reduction to the outstanding financial challenge of around $\pounds 1$ million, to $\pounds 82$ million.

55. The initial financial plan was based on a brought forward underlying recurring deficit of £120 million, although this has been subsequently revised to £118 million (paragraph 43.). The overall financial challenge identified is £173 million, however, a savings target of £50 million and non-recurring funding of £41 million bring the reported funding gap down to £82 million. Non-recurring solutions have since been identified to reduce this funding gap to £52 million.

56. The financial plan is based on £80 million of additional resource, including a 2% baseline uplift from Scottish Government, funding for the National Insurance increase, uplifts from other NHS bodies and money relating to the New Medicine Fund. The most significant cost pressures identified by the board include pay growth (£61 million), prescribing (£29 million) and supplies, public private partnerships, and other inflation (£37 million).

57. It has been assumed that all Covid-19 costs incurred in 2022/23 will be fully funded by the Scottish Government, consistent with the previous two years. The latest estimate of Covid-19 costs in 2022/23 is estimated to be £159 million.

The Financial Improvement Programme for 2022/23 sets out a recurring savings target of £54 million but plans still need to be developed for £34 million, or 63 percent of this target

58. While there has been significant additional funding provided to NHS Greater Glasgow and Clyde in 2021/22 and 2022/23, this has been allocated as non-recurring funding and the need to progress recurring savings plans is critically important in 2022/23. As outlined at paragraph 43., the board has faced significant pressure due to the ongoing impact of Covid-19 and despite achieving a breakeven financial position for the year, the underlying deficit continued to increase. The board aims to deliver recurring savings through its Financial Improvement Programme.

59. The latest financial monitoring report, taken to the Financial, Planning and Performance Committee in June 2022 provides a progress update against the Financial Improvement Programme for 2022/23. It indicates that \pounds 6 million of savings have been achieved in the two months of 2022/23. This is against a revised savings target for the year of \pounds 54 million, which is based on all sectors and directorates achieving 1.5% efficiency savings.

60. There are 53 additional recurring savings schemes defined as being in the pipeline under the Financial Improvement Programme. The total estimated value of these schemes is £9 million in the current year. This means there is still a significant gap of £34 million (or 63 per cent) against the recurring savings target. Savings initiatives will need to be developed at pace to ensure that the board can achieve financial balance in 2022/23 and into the future.

61. We have previously reported the need for the board to develop detailed recurring savings plans that are aligned with the Remobilisation Plan and Moving Forward Together ambition, and this remains relevant in 2021/22 (Follow-up recommendation 5, <u>Appendix 1</u>).

NHS Greater Glasgow and Clyde will be required to return to medium term financial planning in 2022/23

62. We recognise that the requirement to produce three-year financial plans was paused due to the pandemic and NHS boards were initially asked to complete a one-year plan for 2022/23.

63. In our 2020/21 Annual Audit Report we acknowledged that creating a robust medium term financial plan is a complex and challenging process, particularly in an uncertain environment. However, it is a critical step if the board is going to deliver on its activity targets and wider objectives, at the same time as reducing the underlying deficit to a sustainable level over the medium term (Follow-up recommendation 6, <u>Appendix 1</u>). In line with Scottish Government timelines, the board has advised that a three-year financial plan which will be submitted in July 2022.

4. Governance and

transparency

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

Main judgements

NHS Greater Glasgow and Clyde has appropriate governance arrangements in place that support scrutiny of decisions made by the board.

Significant work has taken place in relation to concerns over infection prevention and control at the Queen Elizabeth University Hospital and Royal Hospital for Children, and in June 2022 the board was de-escalated from stage four to stage two of the NHS Scotland Board Performance Escalation Framework.

The board continues to assess, and where appropriate, update the arrangements it has in place to respond the Scottish Public Hospitals Inquiry and the legal proceedings against the parties responsible for delivering the Queen Elizabeth University Hospital and Royal Hospital for Children construction project. However, the challenges are significant, and are placing additional pressures on the board that need to be balanced with other priorities.

The challenges arising from the issues concerning the Queen Elizabeth University Hospital and Royal Hospital for Children are significant and the board continues to assess the arrangements it has in place to respond

64. <u>Exhibit 7</u> sets out the significant risk of material misstatement we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. This risk influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

Exhibit 7

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

Audit risk

Queen Elizabeth University Hospital (QEUH) and Royal Hospital for Children (RHC)

NHS Greater Glasgow and Clyde continues to face exceptional challenges; escalation to Level 4 on the NHS Scotland Performance Management, the ongoing public inquiry into the Queen Elizabeth University Hospital (QEUH), a police investigation and litigation against the QEUH contractor. A significant amount of work and uncertainty exists around these issues, and this is placing additional demands on the board, senior management, and staff. There is a risk that this could impact on the board's ability to deliver its objectives.

Assurance procedure

Attendance at board and relevant committee meetings.

Ongoing engagement with senior management.

Review of QEUH / RHC updates, performance reports and other relevant papers.

Assess the potential accounting implications of any developments.

Results and conclusions

Results & Significant Judgements: We undertook the assurance procedures as planned and found:

- Regular updates on QEUH/RHC issues have been provided to the board and relevant committees and attendance at these meetings has confirmed ongoing scrutiny of the board's position and response.
- Senior management have provided assurance at meetings with audit that the board has appropriate arrangements in place to respond to the ongoing issues.
- A contingent liability has been disclosed in the accounts to highlight the uncertainty over the financial implications arising from the QEUH/RHC issues.

Conclusion: The board continues to assess and, where appropriate, update the arrangements it has in place to respond to the ongoing issues concerning the QEUH/RHC. The challenges around these issues still exist and this is placing significant additional pressure on the board that needs to be balanced with other priorities.

Governance arrangements are appropriate

65. Governance arrangements were revised in 2020/21 due to the Covid-19 pandemic, with many of the normal committees suspended for part of the year. A51483446

We reported on this in our 2020/21 Annual Audit Report and concluded that overall governance arrangements remained effective.

66. The full committee timetable resumed from mid-March 2021 and the decision to re-establish the full standing committee structure was approved by the board on 30 June 2021. Board and committee meetings continued to operate effectively during a continued period of significant uncertainty in 2021/22 and appropriate levels of scrutiny and challenge have been present in these meetings throughout the year. Virtual meetings have been the norm throughout 2021/22.

Significant work has taken place in relation to issues around the Queen Elizabeth University Hospital and Royal Hospital for Children and the board has now been de-escalated to stage two of the NHS Scotland Board Performance Escalation Framework

67. In November 2019 the Cabinet Secretary announced that NHS Greater Glasgow and Clyde was being escalated to stage four of the NHS Scotland Board Performance Escalation Framework for infection prevention, management and control at the Queen Elizabeth University Hospital (QEUH) and Royal Hospital for Children (RHC) and the associated communication and public engagement. Several investigations have been undertaken in response to the issues identified, including:

- The Queen Elizabeth University Hospital Review of the QEUH campus was set up to establish whether the design, build, commissioning and maintenance of the QEUH / RHC had an adverse impact on the risk of Healthcare Associated Infection. The final report was issued in June 2020 and included 63 recommendations.
- The Oversight Board investigated the escalation issues and reported in March 2021. A total of 18 recommendations were made by the Oversight Board across the areas of infection prevention and control, governance and risk management, communication and engagement and general issues. This included 12 recommendations that were specific to the board and six to be considered nationally.
- An independent Case Note Review was commissioned to examine the individual incidents of infection among the children and young people affected. This was reported at the same time as the Oversight Board Report, in March 2021. A total of 43 recommendations over 15 themes were reported through the Case Note Review.

68. A Gold Command delivery group was established to oversee the delivery of all actions in response to the reviews noted above. Evidence and assurances were provided to the Scottish Government to outline the extensive work that has been delivered. On 13 June 2022, notification was received from the Scottish Government that the board has been de-escalated from stage four to stage two of the NHS Scotland National Escalation Framework.

69. As part of the de-escalation process support will be provided to the board, as well as monthly exception reporting and quarterly assurance meetings with the Chief Nursing Officer and Chief Operating Officer for NHS Scotland.

The board is supporting the Scottish Hospitals Public Inquiry

70. The Scottish Hospitals Public Inquiry (the Inquiry) into the construction of the QEUH campus and the Royal Hospital for Children and Young People in Edinburgh was launched in August 2020. NHS Greater Glasgow and Clyde established a Project Management Office (PMO) in 2019 to manage the external review in relation to the QEUH and RHC. The PMO is responsible for managing the Inquiry requirements in terms of administration and document flow and assessment.

71. In our 2020/21 Annual Audit Report we noted that resources within the PMO had been increased, and a single team created to manage the Inquiry and the legal claim (<u>Paragraph 74.</u>). The Executive Oversight Group, which was established to ensure effective and transparent decision making, increased the frequency of its meetings to weekly to support decision making.

72. The workload arising from information requests to support the Inquiry is significant. This includes document requests and specific questions that require a written response. An Executive Working Group has now been established to ensure effective co-ordination of all responses. This group reports to the Executive Oversight Group, which continues to meet weekly.

73. The next oral hearings for the Inquiry will take place from 14 October to 2 December 2022, although the content of those hearings has not been confirmed at this stage.

The outcome of legal proceedings against the parties responsible for delivering the Queen Elizabeth University Hospital and Royal Hospital for Children construction project is still unknown

74. In December 2019, the board initiated court proceedings against the parties responsible for delivering the QEUH/RHC construction project and engaged solicitors (MacRoberts LLP) to act on its behalf. Legal proceedings have been initiated for losses and damages incurred in relation to a number of technical issues identified with the QEUH and RHC. These include issues with the water and ventilation systems, the heating system, the atrium roof and internal fabric moisture ingress.

75. The contractors challenged the court action against them but the legal debate was heard and found in favour of the health board. In addition, permission to appeal was put forward by the contractors but it was subsequently refused. The court has sisted the action to allow the claims to be adjudicated and preparation for this is ongoing. The board has since lodged additional claims in relation to issues with the chilled water system and internal cladding.

76. It is evident that significant uncertainty remains over the outcome of existing and potential future legal proceedings and therefore, the overall cost to the board is unknown. A contingent liability has been disclosed in the accounts to recognise the possible obligations that may arise throughout the processes.

5. Value for money

Using resources effectively and continually improving services.

Main judgements

NHS Greater Glasgow and Clyde's remobilisation plan was revised part way through 2021/22 to reflect the high levels of Covid-19 that were present. Performance remains challenging in several areas, but overall, activity levels are gradually being restored.

An annual review of the arrangements in place at the board to secure Best Value has been prepared and presented to the Audit and Risk Committee for assurance.

NHS Greater Glasgow and Clyde's remobilisation plan was revised during 2021/22 to respond to the uncertainty arising from Covid-19

77. The Scottish Government has requested that NHS boards produce and regularly revise Remobilisations plans outlining plans for the restoration of normal health services.

78. Remobilisation Plan 3 (RMP3) was originally approved to cover the year to 31 March 2022. However, it became clear that high levels of Covid-19 would continue into the second half of the year and so a revision to the plan for the remainder of the year was submitted to the Scottish Government, Remobilisation Plan 4 (RMP4). RMP4 was approved in November 2021 and included a winter plan and revised activity projections.

NHS Greater Glasgow and Clyde has adapted its performance monitoring to reflect its remobilisation priorities

79. 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.

80. 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.

81. NHS Greater Glasgow and Clyde has adapted its internal performance reporting to reflect this and has reported against the trajectories in its remobilisation plans. Performance updates have been considered at regular intervals by the board and relevant committees throughout 2021/22, and board papers can be accessed by the public through the NHS Greater Glasgow and Clyde website. Performance against the targets set out in RMP4 has also been reported in the board's performance report that forms part of the 2021/22 annual report and accounts.



Performance in some areas has continued to be significantly impacted by Covid-19

82. Exhibit 8 demonstrates how activity and waiting times have been impacted by Covid-19 and Exhibit 9 provides a comparison of current waiting times compared to the previous two years. While the national waiting time targets 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.

83. The data shows that the areas most affected include:

- Outpatients waiting less than 12 weeks: performance has dropped by 28 percentage points over two years, from 73 per cent at 31 March 2020 to 45 per cent at 31 March 2022. This is also reflected in the demand and activity data which shows that the number of patients waiting more than 12 weeks for a new outpatient appointment has more than tripled over the last two years.
- A & E attendances: performance has fallen from 88 per cent of attendees being admitted, transferred, or discharged within 4 hours at 31 March 2020 to 72 per cent at 31 March 2022. Performance peaked in 2020/21 at 92 per cent but this is likely to be due to lower attendance levels because of Covid-19 restrictions.
- Both the demand for diagnostic tests and the length of wait have increased significantly over the past two years, by 707 per cent and 127 per cent respectively.

84. The activity data at Exhibit 8 shows that overall activity is gradually being restored, although further progress is required to bring activity back to prepandemic levels. Remobilisation was restricted in 2021/22 due to the third wave of the pandemic, which meant that elective operations had to be paused and restrictions imposed by Covid-19 continued. Despite the challenges, the board has reported good performance in some areas including psychological therapy treatment where 91 per cent of eligible patients started their treatment within 18 weeks, against a target of 90 percent.

Exhibit 8 Trends in demand and activity per acute services

Demand				% change
		Monthly April 2019 to March 2022		
Number waiting for diagnostic			50,850	126.9%
tests	22,410			120.970
	, -	Quarterly June 2019 to March 2022		
Number of patients waiting for			36,935	60.60/
an inpatient or day case admission	22,720			62.6%
	22,120	Quarterly June 2019 to March 2022		
Number of patients waiting for a			125,465	
new outpatient appointment	82,752	~ /		51.6%
Activity	02,752			
Notivity		Monthly April 2019 to March 2022		
Number of scheduled elective	5,870			
operations in theatre system		$ $ $\sim \sim$	4,068	-30.7%
		Quarterly June 2019 to March 2022		
Number of inpatient and day	18,454			
case admissions			12,130	-34.3%
		Quarterly June 2019 to March 2022		
Number of new outpotient	94,104		83,343	
Number of new outpatient appointments				-11.4%
Longth of welte				
Length of waits		Marshire Annil 2040 ta Manak 2000		
		Monthly April 2019 to March 2022	29,298	
Number waiting longer than 6 weeks for diagnostic tests		m		707.1%
	3,630			
Number of patients waiting		Quarterly June 2019 to March 2022	25,193	
longer than 12 weeks for an			,	192.6%
inpatient or day case admission	8,610			
Number of potients waiting		Quarterly June 2019 to March 2022	69,565	
Number of patients waiting longer than 12 weeks for a new			20,000	204.5%
outpatient appointment	22,843			
Courses Dublic Locate Coording				
Source: Public Health Scotland				

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Exhibit 9 Impact of Covid-19 on national waiting time standards

Target/standard	Performance at March 2020	Performance at March 2021	Performance at March 2022 ¹
Cancer 62 Day RTT	80%	82%	72%
Proportion of patients that started treatment within 62 days of referral			(Dec 2021)
18 Weeks RTT	79%	78%	75%
Proportion of patients that started treatment within 18 weeks of referral			
Patient Treatment Time Guarantee (TTG)	69%	75%	73%
Proportion of inpatients or day case that were seen within 12 weeks			
Outpatients waiting less than 12 weeks	73%	48%	45%
Proportion of patients on the waiting list at month end who have been waiting less than 12 weeks since referral at month end			
A & E attendees	88%	92%	72%
Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours			
Cancer 31 Days RTT	96%	97%	98%
Proportion of patients who started treatment within 31 days of decision to treat			(Dec 2021)
Drug and Alcohol 21 days	97%	99%	94%
Proportion of drug and alcohol patients that started treatment within 21 days			(Dec 2021)
CAMHS Waiting Times	59%	67%	63%
Proportion of patients seen within 18 weeks of referral			

Note 1: Figures still to be validated by NHS Information Services Division. Note 2: Performance at 31 March 2022 unless otherwise stated.

Source: Public Health Scotland

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A review of Best Value arrangements has been reported to the Audit and Risk Committee

85. <u>Ministerial guidance to Accountable Officers</u> for public bodies and the <u>Scottish Public Finance Manual</u> (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key characteristics of Best Value and states that compliance with the duty of Best Value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

86. In 2020/21, we recommended that assurance over the adequacy of arrangements put in place by the accountable office to secure Best Value is provided to the board or an appropriate committee through an annual review. An annual review has been prepared and this sets out the arrangements and processes that the board has in place against each Best Value characteristic. This report was presented to the Audit and Risk Committee on 21 June 2022.

National performance audit reports

87. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to the board and are highlighted in <u>Appendix 3</u>.

Appendix 1. Action plan 2021/22

2021/22 recommendations

lssue/risk	Recommendation	Agreed management action/timing
 1. Capitalisation process We identified two errors relating to the timing of the capitalisation of assets (<u>Exhibit 2</u> Items 3 and 4). Both issues arose due to a lack of communication with the capital finance section. Risk – incorrect capital accounting treatment is applied. 	A review of the capitalisation process should be carried out, including consideration of how capital finance is kept informed of asset developments (additions, disposals, enhancements, completion) so that the capital accounting implications can be processed in a timely manner. Management should consider how the capital planning group engages with the capital finance section.	Agreed. A new process has already been put in place, following Audit Scotland feedback, to ensure there is regular communication between Capital Finance and the Fixed Asset teams and quarterly checks/reconciliations of in year capitalisation processes. Responsible officer Head of Capital Finance Agreed date Complete
 2. Remuneration and staff report Our audit of the remuneration and staff report identified issues with the content and accuracy of the information presented. Risk – future remuneration and staff reports do not comply with applicable guidance and present inaccurate information. 	The remuneration and staff report should be subject to a cold review by an individual independent of the preparation process before being submitted for audit. Paragraph 33.	Agreed. An additional counterchecking process has been added to the yearend task planner master list to ensure the Remuneration report is independently reviewed by a senior member of the Financial Services team prior to submission to audit. Responsible officer Head of Financial Services Agreed date Complete

Follow-up of prior year recommendations

lssue/risk	Recommendation	Agreed management action/timing
3. Existence of assets	The arrangements for the verification of assets should be fully implemented. This includes establishing management responsibilities within departments for ownership of assets and the timeous return of relevant documentation to the fixed asset team within finance to ensure accounting records are complete.	Ongoing Agreed. Progress has already been made on this and the arrangements improved each year. Going forward the Fixed Assets team will engage earlier with services to ensure this is done promptly throughout the year Responsible officer Head of Financial Services Agreed date 31 March 2023
4. Impairment review	A formal impairment review should be carried out annually by the Capital Planning Group and provided to the fixed asset team to support the preparation of the annual accounts.	Complete
5. Financial sustainability	Develop and implement detailed savings plans over the medium term which are aligned to the Remobilisation Plan and Moving Forward Together programme. The savings plans should articulate how savings will be achieved. Paragraph 58.	Ongoing The Board will submit its 3- year financial plan to Scottish Government in line with the agreed timescale in July 2022. This plan includes medium term savings plans. Work is ongoing through the FIP programme to develop and deliver in year savings as well as actively developing medium term plans for the future years Responsible officer Director of Finance Agreed date 31 March 2023
6. Medium term financial planning A51483446	Develop a robust medium term financial plan with stakeholders and partners to include a range of different	Ongoing The Board will submit its 3- year financial plan to Scottish

Issue/risk	Recommendation	Agreed management action/timing
	scenarios to reflect the uncertain environment that exists. This should be aligned with the board's transformation and savings programmes to support a reduction in the underlying deficit. Paragraph 62.	Government in line with the agreed timescale in July 2022. This plan includes medium term savings plans. Work is ongoing through the FIP programme to develop and deliver in year savings Responsible officer Interim Director of Finance Agreed date 31 July 2022
7. Review of Best Value arrangements	Prepare an annual update detailing the arrangements and processes in place that support each of the Best Value characteristics.	Complete
	Paragraph 86.	

Appendix 2. Summary of uncorrected misstatements

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

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level. We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1. FHS Expenditure		2,267		
Trade Payables			2,267	
Net impact		2,267	2,267	

Notes:

1. Entry 1 relates to a year end over accrual of FHS expenditure which was included within the accounts. The FHS expenditure would reduce by £2,267k and so the impact on the reported outturn position would be an equivalent increase in the year end surplus bringing it to £2,628k.

Appendix 3. Summary of 2021/22 national performance reports and briefing papers

May Local government in Scotland Overview 2021

June Covid 19: Personal protective equipment

July Community justice: Sustainable alternatives to custody

September Covid 19: Vaccination programme

January Planning for skills

Social care briefing

February NHS in Scotland 2021

March Local government in Scotland: Financial Overview 20/21 Drug and alcohol: An update Scotland's economy: Supporting businesses through the Covid 19 pandemic

NHS Greater Glasgow and Clyde

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NHS Greater Glasgow and Clyde

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Annual Audit Report Year ended 31 March 2023



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This report

This report has been prepared in accordance with Terms of Appointment Letter, through which the Auditor General has appointed us as external auditor of NHS Greater Glasgow and Clyde for financial years 2022/23 to 2026/27.

This report is for the benefit of the Board and is made available to the Auditor General and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Accessibility

Our Annual Audit Report will be available on Audit Scotland's website and we have therefore taken steps to comply with the Public Sector Bodies Accessibility Regulations 2018.

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4. Best Value and Wider Scope	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's:	20
Dimensions	 arrangements to secure sound financial management; 	
	regard shown to financial sustainability;	
	 clarity of plans to implement the vision, strategy and priorities of the Board, and the effectiveness of governance arrangements for delivery; and 	
	the use of resources to improve outcomes.	
	Annual Best Value audit work is integrated with wider scope annual audit work.	
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1. Executive summary: Key conclusions from our 2022/23 audit

Financial Statements

We have concluded our audit of the financial statements of Greater Glasgow and Clyde NHS Board (the Board) for the year ended 31 March 2023. 18 adjustments were made to the financial statements. We identified 33 unadjusted differences relating to 2022/23 and a further 14 unadjusted differences and 1 adjusted difference relating to 2021/22 that we are required to communicate. The draft financial statements and supporting working papers were provided on time with the exception of the remuneration and staff report and related parties disclosures. The financial statements and working papers were of a reasonable quality. We will continue to work with management to further improve the quality of their working papers and responses to audit queries.

We worked with management to make some enhancements to the presentation of the performance report, accountability report and the remuneration and staff report.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration and Report and the Annual Governance Statement were appropriate. We were materially satisfied that the Annual Governance Statement reflects the requirements of the Scottish Public Finance Manual ('SPFM') and the Government Financial Reporting Manual ('the FREM').

We made 15 recommendations as a result of the annual audit, of which 3 were graded as high priority (Grade 1), 9 graded moderate priority (Grade 2) and 3 were graded low priority (Grade 3). These, together with management responses, are included within the action plan in Appendix G.

Going Concern

In accordance with the Government Financial Reporting Manual ('the FReM'), the Board prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

Under auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Board has concluded that there are no material uncertainties around its going concern status, however it has continued to include enhanced disclosures around its future financial position in the financial statements to reflect the ongoing impact of Covid-19, increased demand for services and inflationary pressures. We have no matters to report in respect of our work around going concern or the conclusions reached by the Board.



Wider Scope and Best Value

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

Financial Sustainability

The financial environment in which the Board operates was already challenging, and the Covid-19 pandemic, alongside the impact of the economic and geopolitical environments, including supply chain challenges, has resulted in further, significant financial pressures, and creates a risk that the Board will not be able to develop viable and sustainable financial plans.

The Board submitted a three-year financial plan in March 2023 to the Scottish Government which outlines annual deficits of £71.1 million in 2023/24, £79.8 million in 2024/25 and £54.5 million in 2025/26 resulting in a cumulative deficit of £210 million with £225 million of savings to be achieved across the three year period from 2023-2026. This deficit reduced marginally in April 2023 by a total of £5 million to £205 million following approval of a revised medium term plan. In order for the Board to achieve breakeven a total of £509 million of savings will be required over the next three financial years. Management continue to explore options to deliver savings, however the scale of the challenge is significant and will require collaboration both within the Board and other stakeholders. It will also require the Board to deliver savings on a recurring basis, which has historically been an area of challenge, with only a third of savings in recent years being made on a recurring basis. Our assessment reflects the ongoing challenges facing the Board, the NHS and considers the level of risk and uncertainty outside the Board's control which could impact it's ability to deliver savings.

Financial Management

The Board met all financial targets in 2022/23 with an underspend of

£0.783 million against their revenue resource limit, following an updated allocation letter issued on 23 June 2023. The financial position throughout the year was challenging and the majority of savings delivered to reach financial balance were done so on a non-recurring basis. The Board continues to review and identify areas to deliver recurring savings to ensure their medium and long-term sustainability.

The Board is by the far the largest health board in Scotland, however the number of qualified accountants is comparable to most other boards. We have noted that there is significant dependency on a small number of key individuals for complex and technical accounting matters. While changes are planned, this should be a key area of focus for the Board alongside ensuring that appropriate succession planning arrangements are in place for key finance roles.







Vision, leadership and governance

The Board has a focus on continuous improvement as demonstrated through the ongoing implementation of NHS Scotland's Blueprint for Good Governance. Features of good governance have been demonstrated by the Board during the year.

The Board has experienced significant turnover in key roles within the Executive Management team and the Chair of the Board will also complete his appointment in November 2023. The Board should continue to ensure there are appropriate transition arrangements for key senior roles.

The Board continues to highlight cyber threats as a key risk area and continues to seek support from external experts to ensure there is an appropriate control environment to mitigate the risk.

The Board continues to assess, and where appropriate, update the arrangements it has in place to respond to the Scottish Public Hospitals Inquiry, the ongoing police investigation and the legal proceedings against the parties responsible for delivering the QEUH/RHC construction project. However, the challenges are significant, and are placing additional pressures on senior management that need to be balanced with other priorities.

Use of resources to improve outcomes

The Board considered regular performance updates against the Annual Delivery Plan measures throughout the year. Performance has improved

against the Board's KPIs during 2022/23, with 66% of targets being met compared to 48% in 2021/22. However, it should be noted that 25 targets were included within the remobilisation plan reported on in the prior year compared to 15 targets reported against in 2022/23. While the overall trajectory shows improvement, there are significant challenges in performance across three key areas: cancer treatment times; accident and emergency treatment times and delayed discharges. Increasing demand for services, including cancer referral rates, present challenges in improving performance however despite these challenges, significant improvement in these areas is required, a position common across NHS Scotland.

NHS Scotland has set ambitious climate change targets with the target to be net zero by 2040. The Board in 2023/24 has recognised the importance of incorporating key climate change and sustainability objectives into its Annual Delivery Plan and medium-term delivery plans. A Sustainability Strategy is due to be endorsed by the Board in August 2023. The establishment of this strategy will provide the Board with a mechanism to set a clear pathway to achieving the NHS Scotland target.





Purpose of this report

In accordance with the Public Finance and Accountability (Scotland) Act 2000 ("the Act"), the Auditor General for Scotland appointed EY as the external auditor of NHS Greater Glasgow and Clyde ("the Board") for the five year period 2022-23 to 2026-27. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021; Auditing Standards, and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is intended to summarise the key findings and conclusions from our audit work. It is addressed to both members of the Board and the Auditor General for Scotland, and is presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the Board. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our Annual Audit Plan.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Board employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Board in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

Scope and responsibilities

The Code sets out the responsibilities of both the Board and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan which was presented to the Board's Audit and Risk Committee on 14 March 2023.

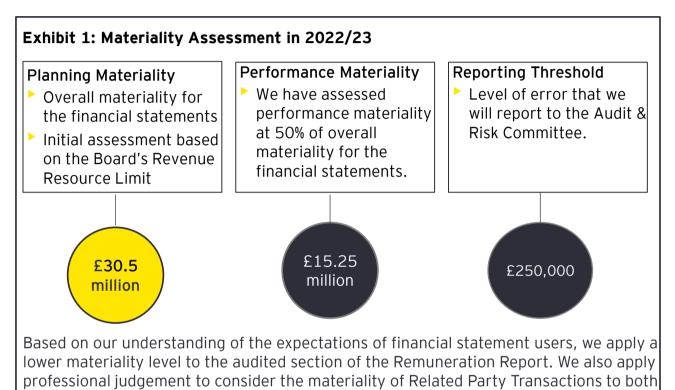
Our review and assessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £33 million. We considered whether any changes to our materiality was required, including due to the Board's 2022/23 financial performance. As a result of a reduction to the Board's core revenue resource limit, our materiality was revised to £30.5 million.



Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the remuneration report and related party transactions.



Financial Statement audit

parties.

We are responsible for conducting an audit of the Group and Board's financial statements. We provide an opinion at to:

- whether they give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 HM Treasury Financial Reporting Manual.

We also review and report on the consistency of other information prepared

and published along with the financial statements. Our findings are summarised in section 2 of this report.

Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- Financial management;
- Financial Sustainability;
- Vision, leadership and Governance; and
- Use of resources to improve outcomes.



2. Financial Statement audit

Introduction

The annual financial statements provide the Board with an opportunity to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- the risk of fraud in revenue and expenditure recognition (significant risk); and
- misstatements due to fraud or error (fraud risk).

Compliance with Regulation

As part of our oversight of the Board's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared, predominantly by the finance team, to support the audit.

The financial statements were prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

The draft financial statements and supporting working papers were provided on time with the exception of the remuneration and staff report and related parties disclosures. The financial statements and working papers were of a good quality.

The financial statement were updated for changes to the Annual Accounts Manual NHS Greater Glasgow and Clyde Annual Audit Report 2022/23

and the FREM, including the changes associated with IFRS 16 implementation.

Preparation of the Financial Statements

The financial statements prepared by management were to a good standard and were materially compliant with the Annual Accounts Manual, FREM and required disclosures. As part of the audit process, we worked with management and the finance team to make enhancements to the presentation of the performance report, accountability report and the remuneration and staff report. We will continue to work with management and the finance team to enhance the understandability of the performance and accountability reports, as set out in Appendix G, recommendation 1.

Further amendments were also made to enhance disclosures around key estimates and judgements within the financial statements.

Group financial statements

The Board prepares its annual report and financial statements on a group basis. The Group consists of the following organisations in addition to the Board:

- NHS Greater Glasgow and Clyde Endowment Fund; and
- the six integration joint boards operating in partnership with the Board (Glasgow, East Renfrewshire, Renfrewshire, East Dunbartonshire, West Dunbartonshire and Inverclyde).

The Endowment Fund (the Fund) is fully consolidated. Income and expenditure for the endowment fund is immaterial to the Group however the Fund holds a material level of assets. As set out in our Annual Audit Plan, we classified the Fund as a specific scope component meaning that the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of the accounts.

Due to the nature of the investments held by the Fund, we issued group instructions to the Fund auditor, BDO LLP. The instructions covered specific procedures in respect of cash and investments only.

Our communications with the component auditor note that the Fund audit is complete and no significant matters have been brought to our attention which impact the Group.

The Integration Joint Boards are joint ventures with the respective local authority and are accounted for under the equity method. We determined that the Integration Joint Boards were review scope components meaning that our procedures primarily consisted of analytical review procedures and inquiries of management. We have obtained confirmation from the Integration Joint Board Chief Financial Officers regarding the balances to be included within the Group financial statements.

We are satisfied that the consolidated financial statements have been prepared appropriately. Our work included reviewing the consolidation entries made within the group financial statements and confirming those entries back to component financial statements.

seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and shared audit findings.

Across NHS Scotland, a number of shared services exist as set out in Exhibit 2 for which independent service auditor's reports are provided in line with International Standard on Assurance Engagement 3402.

In early 2023, the NSI e-financials system was upgraded which impacted some system functionality and included data transfers. In response to this, we performed additional procedures including:

- Reviewing the reconciliation between the data held within e-financials both pre and post transfer to ensure the data transfer was processed correctly.
- Performing a walkthrough of key financial processes and controls both pre and post the upgrade to ensure there were no amendments to controls.
- Performing targeted journal testing over the period where system functionality problems occurred to ensure that transactions posted were both complete and accurate.
- Utilised data analytics to identify any unusual data patterns which would indicate data quality issues or omissions.

The performance of these procedures has not identified any issues.

Shared systems and functions

Audit Scotland encourages auditors to



Shared Service	Service Assurance
National Practioner and Counter Fraud Services This report provides assurances over the controls to support the four family health services payment streams relating to medical, ophthalmic, dental and pharmacy.	NHS National Services Scotland (NSS) procures a service auditor report from KPMG LLP. In May 2023, KPMG LLP reported an unqualified audit opinion. We considered the findings of the report and are satisfied findings do not have a material impact on our audit approach or conclusions.
National IT contract This contract with NHS National Services Scotland covers the services provided by ATOS IT Services Limited in respect of IT services controls supporting payroll services and practitioner and counter fraud services.	NHS NSS procures a service auditor report from KPMG LLP. In May 2023, KPMG LLP reported an unqualified audit opinion. We considered the findings of the report and are satisfied that the findings do not have a material impact on our audit approach or conclusions.
National Single Instance (NSI) Financial Ledger Services NHS Ayrshire and Arran operate the NSI financial ledgers services on behalf of all Scottish Health Boards.	NHS Ayrshire and Arran procure a service auditor report from BDO LLP. In May 2023, the service auditor highlighted no critical or significant findings and reported an unqualified opinion.

Remuneration and staff report

The Board must prepare a remuneration and staff report in line with the requirement of the FReM and the Annual Accounts Manual. We received the remuneration report on 15 May 2023. The Board has had significant turnover in the senior management team which has led to additional complexities in preparing remuneration disclosures. Information required from SPPA was provided on 15 June 2023, however a number of inconsistencies with the Board's records were identified and clarifications sought from SPPA. This information was received on 23 June 2023 and following audit review, the remuneration and staff report has been appropriately updated. Refer to Appendix G, recommendation 15 for areas of improvement identified in respect of the preparation of the remuneration and staff report.

1 1



Audit Outcomes

We identified 18 adjusted audit differences arising from the audit which have been reflected within the financial statements. A further 33 differences remain unadjusted. We identified 14 unadjusted audit differences and 1 adjusted difference relating to the prior year financial statements. The differences related to a wide range of areas with the majority relating to classification differences across both balance sheet and income and expenditure accounts. Our overall audit opinion is summarised on the following page.

We made 15 recommendations as a result of the annual audit, of which 3 were graded as high priority (Grade 1), 9 graded moderate priority (Grade 2) and 3 were graded low priority (Grade 3). These, together with management responses are included within the action plan in Appendix G.

Key audit matters

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Under the Code of Audit Practice (the Code), issued by Audit Scotland in June 2021. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Element of our opinion	Basis of our opinion	Conclusions
 Financial Statements ➤ Truth and fairness of the state of affairs of the Group and Board at 31 March 2023 and its expenditure and income for the year then ended ➤ Financial statements in accordance with the relevant financial reporting framework 	 We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement. We are satisfied that accounting policies are appropriate and estimates are reasonable We have considered the financial statements against the FREM and Annual Accounts Manual requirements, and additional guidance issued by the Scottish Government and Audit Scotland. 	We issued an unqualified audit opinion on the 2022/23 financial statements for the Board and its Group.
Going concern → We are required to conclude on the appropriateness of the use of the going concern basis of accounting	 We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis. Wider scope procedures including the forecasts are considered as part of our work on financial sustainability 	In accordance with the work reported on page 30, our audit opinion is unqualified in this respect.
Other information → We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit	 We conduct a range of substantive procedures on the financial statements. We conduct a range of substantive procedures on the financial statements and our conclusion draws upon review of committee and board minutes and papers, regular discussions with management, our understanding of the Group, Board and the wider sector. 	We are satisfied that the performance, accountability and remuneration and staff report meets the core requirements set out in the FREM and Annual Accounts Manual.

Element of our opinion	Basis of our opinion	Conclusions
 Matters prescribed by the Auditor General for Scotland Audited part of Remuneration and Staff Report has been properly prepared Performance report, Accountability report and Annual Governance Statement are consistent with the financial statements and have been properly prepared. 	 Our procedures include: Reviewing the content of narrative disclosures to information known to us. Our assessment of the Annual Governance Statement against the requirements of the SPFM and the FREM. 	We issued an unqualified opinion.
Matters on which we are required to report by exception	 We are required to report on whether: there has been a failure to achieve a prescribed financial objective, adequate accounting records have been kept, financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or we have not received the information we require. 	We have no matters to report.

Significant and fraud audit risks

1. Risk of fraud in revenue and expenditure recognition (Key audit matter)

As outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

In the last two financial years, a revised financial regime operated during the Covid-19 pandemic. The Board's financial plan for 2022/23 set a financial challenge of £173 million with a savings target of £50 million and non-recurring savings bringing the reported gap down to £82 million. Over the course of the financial year, the Board has progressed savings plans and obtained additional funding which reduced the gap to a small underspend position.

Our Annual Audit Plan highlighted that as a result of the financial pressures and forecast deficit there is a presumed incentive for management to manipulate judgemental and subjective areas of the financial statements to improve the Board's reported financial performance. We consider this risk to be most prevalent at year end and relate to income (£2.86 billion, PY comparative £2.7 billion), accrued income (£7.5 million, PY comparative £15.4 million), other receivables (£44.5 million, PY comparative £21.3 million), non-payroll expenditure (£3.86 billion, PY comparative £4 billion) payables accruals (£357 million, PY comparative £494 million), deferred income (including contract liabilities) (£54.8 million, PY comparative £65.9 million and provisions (£442 million, PY comparative £396 million). Refer to accounting policies (page 89 to 106) and notes 3, 4, 9, 12 and 13 of the Consolidated financial statements.

Our response: Key areas of challenge and professional judgement

We undertook specific, additional procedures over income and expenditure streams where we identified a significant risk, including:

- Review and test revenue and expenditure cut-off for an extended period at the period end date;
- Review SFR 30 data and investigate differences with counter-parties we consider to be significant;
- Focus our testing on manual year-end accrued income and other receivables, accrued expenditure, and provisions where we believe the risk of management override and/or inappropriate revenue recognition to be greater;
- Perform detailed testing over manual year-end accrued income and other receivables, accrued expenditure, and provisions to a lower threshold;
- Perform specific testing over family health services income and expenditure including agreeing amounts recognised to 'form 12s' and reviewing the findings of the service auditor reports; and
- Test revenue and capital expenditure to ensure it was appropriately classified.



Area of focus: Activity Shortfall accrual related to service level agreements with NHS Scotland health boards

The Board provides services to patients from other territorial health boards who have been transferred onto the Board's waiting lists through service level agreements (SLA) in place with 11 other boards. The value of these agreements was based on actual activity levels across different specialisms, using three year rolling average activity and costings. Prior to Covid-19, the Board was able to materially deliver the activity set out in the agreements, however the Covid-19 pandemic significantly changed the Board's ability to deliver the level of activity in the SLAs. No formal contract amendments were made at this time, and agreement was made nationally between Boards to maintain payments and transfers of patients in line with the pre-Covid arrangements.

Since 2020/21 the Board has accounted for the income and expenditure related to these SLA's by recognising the full income on transfer of patients to the Board's waiting lists, and accruing any "shortfall" in activity / expenditure at the yearend to reflect an estimate of the future costs that will be incurred in treating patients who have transferred.

xhibit 4: Activity Shortfall Accrual and revenue			
Financial year	Accrual value (£'000s)	Total annual contract revenue (£'000s)	
2020/21	£54,131	£329,584	
2021/22	£98,082	£341,847	
2022/23	£103,496	£364,619	

Through discussion and engagement with management, review of the relevant SLAs and supporting schedules and engagement with both our internal and Audit Scotland's technical teams, we have concluded that the appropriate accounting treatment would be to recognise income in line with the requirements of International Financial Reporting Standard 15, IFRS 15 "revenue from contracts with customers".

This accounting standard requires revenue to be recognised when the performance obligation is satisfied, being the treatment of those patients who have been transferred onto the Board's own waiting lists. This means that revenue received for patients not treated should be deferred on the balance sheet as a "contract liability" until subsequently recognised through the delivery of those obligations.



Area of focus: Activity Shortfall accrual related to service level agreements with NHS Scotland health boards

The impact of amending the current accounting approach to one which is consistent with the principles of IFRS 15 resulted in material adjustments to correct prior year errors in the financial statements for 2020/21, 2021/22 and in the current 2022/23 financial year, as set out in Appendix F.

- The expenditure and subsequent accrual for future costs is removed, reducing both expenditure and the balance sheet accrual at 31 March each year with a reduction of £98 million in 2021/22 and £5 million in 2022/23.
- A portion of the SLA income recognised is removed and retained on the balance sheet as a creditor under "contract liability". A contract liability of £51.2 million has been recognised in 2022/23 and £62.6 million in 2021/22.

The two changes noted have resulted in a surplus of £35.5 million in 2021/22 and an improvement to the final financial outturn in 2022/23 of £16.7 million. Due to the materiality of the accounting balances management have retrospectively amended the prior year balances as well as including "restated" on the primary financial statements and supporting notes, with an additional explanatory note for the reader of the financial statements.

In order to confirm the accuracy of the required adjustments, we worked with management to test the underlying information, utilising where possible, our existing testing over the accrual. In particular we :

- Agreed the adjustments for each year removing the previously accrued expenditure for future required activity.
- Gained an understanding of the methodology applied to the recognition of income in each year in line with the performance of the relevant obligations to treat patients in line with the requirements of IFRS 15.
- Tested the underlying data driving the revenue recognition and subsequent deferral of remaining revenue as a contract liability to supporting information for relevant patients.
- Agreed the mathematical accuracy and presentation of the adjustments to the financial statements, including internal consultation on the correct presentation of the prior year adjustments and supporting schedules.

In respect of the prior period adjustment, we concur with the amended accounting treatment with no impact on our audit opinion.

Please refer to Appendix G, recommendations 2 and 3 for further details of improvement areas identified.



Our conclusions

- Our work in respect of accruals and accrued income is complete. Our testing has identified one adjustment in respect of a duplicated accrual for £1.8 million. Further adjustments have been identified in respect of the classification of both receivables and payables balances.
- Our work in respect of the activity shortfall accrual and associated revenue is complete. We have identified judgemental differences in each year as set out in Appendix F.
- We identified inconsistencies in how the Board accounted for the resource transfer expenditure with partner local authorities based on information shared from one of the health and social care partnerships which resulted in an adjustment of £1.9 million reclassification between income and expenditure.
- The Board processes payroll for a number of other health boards and local hospices. In these instances, the Board acts as an agent however both the payroll costs and income for recovery of these costs were included within the Board's financial statements.
- We identified one classification error from our revenue testing of £0.26 million in respect of income from other NHS bodies classified as private patient income.
- In May 2023, the Scottish Government proposed a 14.5% pay increase to junior doctors including an additional 3% relating to be backdated for 2022/23. In June 2023, this offer was rejected. We have evaluated whether the offer creates a liability to the Board. As set out in appendix F, Management has elected not to adjust for the potential backdated pay of approximately £5 million however disclosures have been added to the financial statements to set out the potential liability. This decision is based on the current status of the pay negotiations and associated uncertainty of any agreement.
- Our procedures have identified a number of classification errors. Management should ensure that a thorough review is performed to reduce the number of such errors in future years. Refer to Appendix G, recommendation 4.
- We further identified a number of errors in respect of accruals including calculation differences, accruals in respect of future expenditure and double counted accruals. Management should assess the current review procedures and identify areas where this could be enhanced to reduce the volume and value of errors identified. Refer to Appendix G, recommendation 14.
- All adjustments as noted above are included within Appendix F.
- Based upon the audit procedures performed, we conclude that revenue and expenditure has been appropriately recorded in accordance with the requirements of the Government Financial Reporting Manual (chapter 7 and 11).

Risk of management override (Key audit matter)

Our Annual Audit Plan recognised that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

Risk of Fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Testing on Journal Entries

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit.

We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated.
- Journals adjusting between income and expenditure accounts and capital accounts.
- We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

Due to the current processes adopted by the finance team, we were unable to fully utilise our data analysers due to the name of the individual who prepared the journal not being recorded on the system as it is posted by a separate individual. We have recommended that this process is reviewed by the Board within Appendix G, recommendation 5.

Judgements and Estimates

ISA (UK) 540 on accounting estimates was issued in December 2019 and was applicable to the Board's audit from 2020/21. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:



- a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to early retirement provisions and clinical and medical negligence claims (outlined on page 26 of this report); and
- areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets(such as property, plant and equipment, outlined on page 21 of this report).

Our procedures included:

- Testing management's process method, key assumptions, data;
- Testing management's process-estimation uncertainty;
- Considering evidence from events up to the report date; and
- Developing our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias as outlined above, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these, as outlined earlier in this report.

Accounting policies

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Board to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under the FReM.

Our conclusions

Excluding considerations in respect of the activity shortfall accrual:

- We have not identified any material weaknesses in the design and implementation of controls around journal processing. However, we have identified areas for efficiency. We did not identify any instances of evidence of management override of controls.
- There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.
- We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- There were no significant accounting practices which materially depart from what is acceptable under the FReM or Annual Accounts Manual.

2. Valuation of Property, Plant and Equipment (Key audit matter)

Financial Statement Impact

The Board held £2.5 billion (2021/22: £2.4 billion) of property, plant and equipment with £2.23 billion (2021/22: £2.19 billion) relating to land and buildings. Additions totalled £92 million, with completions of £64 million. In accordance with the Government Financial Reporting Manual ('the FReM'), the Board must ensure that land and buildings are subject to regular valuation. The Board has a rolling 5 year programme with indexation applied to assets not formally revalued in year.

The fair value of property, plant and equipment (PPE) represent significant balances in the Board's financial statements. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The Board additionally has a significant capital programme with judgement being applied to the valuation of additions and split between revenue and capital expenditure.

Refer to accounting policies (page 89 to 106) and note 7 of the Consolidated financial Statements.

Our response: Key areas of challenge and professional judgement

Our approach included:

- review and appraisal of the work performed by the Board's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- involving EY internal specialists to challenge the work performed by the Board's valuers, where appropriate;
- assessing any changes to useful economic lives;
- testing accounting entries have been correctly processed in the financial statements;
- sample testing transfers from assets under construction and confirm for a sample that remain within assets under construction that development is still in progress;
- reviewing management's impairment assessment and assess the completeness of impairment considerations;
- gaining an understanding of the level and nature of capital spend in year and perform testing on fixed asset additions ensuring an appropriate split between revenue and capital expenditure; and
- reviewing operating expenditure for evidence of capital addition omissions.



Our conclusions

Valuations

- In line with other NHS Boards, the Board engages an external valuer, the District Valuer, to inform management's assessments and judgements applied in respect of the valuation of land and buildings. Following the provision of the valuer's advice, management should review and challenge the valuer's assessment against their own understanding of the Board's estate and other external factors. While management advise this takes place, we noted that there was limited evidence of the Board's evaluation of the valuations and any questions issued to the valuer.
- The Board's valuer adopts a beacon approach specifically designed by the District Valuer. While this approach may be compliant with industry standards, the level of effort required by third parties-to understand this approach is significant. As set out within Appendix G, recommendation 6, for future years, the Board should work with the valuer to ensure an appropriate level of detail on the methodology can be provided to both management and the auditor in a timely manner.
- Our assessment is that the valuations of land and buildings falls within an acceptable range, recognising the significant judgements and estimation inherent with such valuations. Within that range, we noted that a greater proportion of assets subject to audit review fall within the lower quartile. This should be an area of focus for the Board to ensure that assets are appropriately valued.
- Our work in respect of valuations is complete and no further matters have been identified from the work performed.
- Based upon the audit procedures performed, we conclude that PPE has been appropriately valued in accordance with the requirements of the Government Financial Reporting Manual (chapter 7 and 10).

Additions

- We identified a number of errors in respect of equipment which should have been transferred into additions both in 2021/22 and 2022/23 as set out in Appendix F; due to the value of the errors, these have been corrected within 2022/23. We have further identified items capitalised in 2022/23 which were completed in 2023/24. While the Board has taken steps to improve procedures to review balances within assets under construction and ensure they are appropriately capitalised in a timely manner, this should be a continuing area of focus for the Board. Refer to Appendix G, recommendation 7.
- Our work in respect of additions is complete and no further matters have been identified from the work performed



3. Valuation of PFI/Hub Liabilities (Key audit matter)

The value of PFI/Hub liabilities represent significant balances in the Board's financial statements with the Board holding 16 different contracts. Accounting for these contracts includes a number of complexities ensuring the financial models reflect any contract amendments and inflationary uplifts.

Within the 2022/23 financial statements, the Board held £299 million (2021/22: \pounds 307 million) in respect of PFI/PPP contract liabilities (refer to accounting policies (page 89 to 106) and note 17 of the Consolidated financial Statements). Due to the complexity of accounting for PFI/PPP contracts and the high value of the transactions, there is a risk that the Board's financial statements do not show the correct accounting entries, reflect the correct accounting model and that related commitments are not correctly disclosed.

Our response: Key areas of challenge and professional judgement

Our procedures included:

- reviewing the contractual agreements for each PFI/PPP asset and confirm any contract amendments have been appropriately reflected within the liability valuation;
- ensuring that that accounting models have been appropriately and accurately updated to reflect inflationary uplifts and actual unitary charge payments;
- testing accounting entries have been correctly processed in the financial statements;
- involving EY internal specialists to review and challenge the accounting models for each PFI/PPP contract; and
- reviewing financial statement disclosures to ensure commitments are appropriately disclosed.

- Our work in respect of PFI/Hub liabilities is complete however we have identified a total adjustment of £13.5 million as noted in Appendix F. This included £12.5 million in relation to prior years.
- We engaged our specialists to support our procedures, taking into account the models had not been subject to detailed specialist review before. These procedures identified a number of inconsistencies between the original operator's model and the financial model used to support the preparation of the financial statements. Due to the age of some contracts, challenges have been encountered in obtaining sufficient evidence to explain the inconsistencies partially due to staff turnover and document retention.
- A number of improvements have been identified in respect of the completion and monitoring of the PFI contracts as set out in Appendix G, recommendation 8.
- Based upon the audit procedures performed, we conclude that PFI/Hub liabilities have been appropriately valued in accordance with the requirements of the Government Financial Reporting Manual (chapters 7 and 10).

4. Implementation of IFRS 16 (Key audit matter)

IFRS 16 Leases was applicable in the public sector for periods beginning 1 April 2022. The Board has therefore transitioned to IFRS 16 from 1 April 2022 with adjustments reflected within their 2022/23 financial statements.

The opening position as at 1 April 2022 showed a right of use asset and liability of \pounds 22.2 million with additions of \pounds 6.2 million in year. The Board held \pounds 24.7 million in respect of right of use assets and \pounds 19 million in associated liabilities as at 31 March 2023. Refer to accounting policies (page 89 to 106) and note 16 of the Consolidated financial Statements.

IFRS 16 eliminates the operating/finance lease distinction for leases and imposes a single model geared towards the recognition of all but low-value or short term leases. These are now recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.

Successful transition depended on the Board capturing additional information about leases, both new and existing, especially regarding future minimum lease payments. The Board will also require systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts will need to be updated annually based on prevailing indices.

Our response: Key areas of challenge and professional judgement

Our procedures included:

- gaining an understand the processes and control developed by the Board relevant to the implementation of IFRS 16;
- testing that the correct discount rate is used to calculate the right of use asset;
- reviewing management policies, including whether or not to use a portfolio approach, low value threshold, and asset classes where management is adopting as the practical expedient to non-lease components;
- testing that the £23.7 million right of use asset identified in the PY is correct;
- sample testing for new leases, changes to leases, termination of leases, and subsequent measurement in year; we reviewed lease agreements and considered whether or not lease and non-lease agreements were correctly identified. We also confirmed the lease start date and lease term; and
- ensuring that lease and right of use asset financial statement disclosures are in line with the requirements of the FReM and Annual Accounts Manual.



- We identified one monetary disclosure adjustment due to the Board not allocating the lease liability across the correct timing of payments. This adjustment is set out in Appendix F.
- We worked with management to enhance the transition disclosures in respect of IFRS 16 to ensure the impact of the transition was clear to readers of the financial statements.
- The Board applied the HM Treasury discount rate for all lease liabilities regardless of whether there is an interest rate explicitly referred to within the lease. Transition guidance in this area was contradictory and clarification on this matter was sought through the NHS Technical Advisory Group which determined the rate per the lease should be applied. A judgemental difference of £2.3 million was identified as a result which is included within Appendix F.
- We conclude that management has undertaken sufficient procedures to identify any contracts will would fall under the scope of the standard.
- Common with other boards across Scotland, the Board encountered challenges utilising the system procured to record and calculate IFRS 16 leases with a hybrid approach undertaken between the system and excel to produce financial statement figures. Moving forward, the Board should work with other boards across Scotland to enhance the use of the system and reduce the need for manual intervention.
- Based upon the audit procedures performed, we conclude that right of use assets and associated liabilities have been appropriately valued in accordance with the requirements of the Government Financial Reporting Manual (chapters 7 and 10).

Other Inherent audit risks

Our Annual Audit Plan highlighted additional areas of inherent risk. We identified no further areas of risk as part of our audit procedures. The results of our procedures on inherent risk areas are summarised below.

CNORIS Provision

Within the Board's financial statements, provisions for legal obligations in respect of clinical and medical obligations and participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme) are recognised. These material estimates include a significant degree of subjectivity in the measurement and valuation of provisions. These provisions totalled £411 million (2021/22: £357 million) per the Board's financial statements.

Our audit work focused on the following areas of judgement within these balances and included:

- reviewing the method, underlying assumptions and data inputs used to calculate the provision to ensure these are appropriate and accurately reflect the Board's obligation as at 31 March 2023;
- assessing whether provisions, including CNORIS, are recorded in line with the FReM and the Board's accounting policies, and have been accounted for appropriately; and
- assessing the work performed by the NHS Scotland Central Legal Office ('CLO'), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.

- Audit Scotland undertake an annual review of the work carried out by the CLO to establish the extent to which the information they provide can be used as audit evidence under ISA (500) UK and evaluate the appropriateness of the methodology adopted by the Scottish Government to estimate the national obligation. Their review did not identify any issues in respect of the methodology applied and they concluded that the CLO is objective, has sufficient expertise and the capability, time and resource to deliver reliable information. Our own assessment concurs with this position.
- We are satisfied that the amounts recorded in the Board's financial statements in respect of CNORIS participation and clinical and medical negligence provisions reflect the amounts notified by the CLO. The financial statement disclosures appropriately reflect the estimation uncertainty inherent in such provisions.
- Amendments were made to enhance estimate disclosures surrounding structured settlement payments to reflect the significant estimation and judgements applied to arrive at a provision value.

Opening Balances

As 2022/23 is the first year of our audit appointment, we are required to complete additional procedures in line with Auditing standard ISA (UK) 510.

There is a possibility that we identify balances that we consider to be inappropriately recognised or valued incorrectly, in particular where we disagree with the basis for estimates and judgements made historically or the underlying accounting principles applied by management.

Our audit work focused on the following areas of judgement within these balances:

- agree the opening balance sheet position to the underlying financial records held by management;
- review the prior year working papers by the departing auditor to understand the procedures completed and if they need to be supplemented or followed up in any way;
- consider unusual material transactions posted by management in the first accounting periods of 2022/23, which may indicate correction of previous errors, and understand the basis for these transactions; and
- review post 31 March 2022 actual transaction data for estimates made at the previous balance sheet date to assess the reasonableness of estimates made.

- We identified a number of key judgements and estimates within the prior year financial statements. This includes:
 - Land and Buildings valuation as set out on page 21.
 - PFI/Hub liabilities as set out on page 23.
 - Accruals as set out on page 15.
- We identified a number of adjustments in relation to the prior year which are included within Appendix F.



Valuation of Inventories

The Board held an inventory balance of $\pounds 27.6$ million as at 31 March 2023 (2021/22: $\pounds 25.2$ million). Due to the Covid-19 pandemic, full stock counts were unable to be performed in some areas over the last two financial years and in some instances, prior year information was used. There was therefore a risk that inventories were not accurately valued or that the balance was not complete.

Our audit work focused on the following areas of judgement within these balances including:

- ensuring that the Board has an appropriate programme of year end inventory counts;
- attending a sample of year end inventory counts to ensure that appropriate counts and valuations have occurred; and
- ensuring that stock valuations are appropriately reflected within the financial statements.

- Our attendance at inventory counts identified a number of control observations and errors in counts. Please refer to Appendix G, recommendation 9.
- Count errors for the sites attended were amended within the count sheets provided to the central finance team. We extrapolated the potential error across the sites which we did not attend resulting in a judgemental difference of £0.53 million.
- No other material issues were noted through our procedures to support the valuation, completeness and existence of inventory.



Existence of moveable plant and equipment

As at 31 March 2023, the Board held plant and equipment of £146.3 million (2021/22: £131.8 million). While verification work is performed by the Board in respect of these assets, the volume and moveable nature of these assets increases the risk that they do not exist at year end.

Our audit work focused on the following areas of judgement within these balances:

- reviewing management's procedures to confirm the existence of moveable plant and equipment; and
- physically verify a sample of assets to ensure they remain in existence at year end.

- Our verification work completed was able to confirm the existence of a sample of items of plant and equipment. One item was not in the anticipated location however the Board were able to locate the equipment.
- The Board's IT equipment is capitalised in bulk within the fixed asset register which creates challenges in identifying specific physical assets. A separate IT asset register exists, however the link between accounting records and this register is not clear. As set out in Appendix G, action plan number 10, the Board should ensure that the IT assets in the fixed asset register can be readily traced to the IT asset register and individual tagged assets.
- While engagement from sites could be enhanced, we are satisfied that the central finance team has established procedures to verify the existence of equipment at the balance sheet date.



Going concern

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the FReM, the Board shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity.

However, under the auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, the ongoing cost of living crisis and inflationary pressures, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Board and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to June 2024.

After completing its going concern assessment in line with the information and support provided through earlier discussions in the audit process, the Board has concluded that there are no material uncertainties around its going concern status. We have outlined our consideration of the Board's financial position going forward in the financial sustainability section of this report. We considered this in conjunction with management's assessment on going concern, focusing on:

- the completeness of factors considered in management's going concern assessment;
- the integrity and robustness of the underlying cash flow forecasts supporting future financial projections, in particular if the Board projects to require financial support during the going concern assessment period; and
- the completeness of disclosures in the financial statements in relation to going concern and future financial performance in line with the requirements of the FReM.

Our conclusions

We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Board reports and financial plans. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Group and Board.

ISA (UK) 315: Identifying and Assessing the Risks of Material Misstatement

As set out within our Annual Audit Plan, there has been a significant change to the audit standard, ISA (UK) 315 that impacted our 2022/23 audit approach and the procedures we needed to perform.

The standard drives our approach to:

- risk assessment;
- understanding the Board's internal control arrangements;
- the identification of significant risks; and
- how we address significant risks.

Key changes to our audit approach as a result of the implementation of ISA 315 were:

- A significant increase in audit work on the Board's use of IT in the system of internal control.
- Increased importance of our understanding of the entity and environment, the applicable financial reporting framework, and system of internal control.
- A greater focus on professional scepticism including ensuring that audit approaches do not show bias to look for corroborative evidence or excluding contradictory evidence.
- We made enhanced inquiries of management and others within the Board who deal with fraud allegations, to determine whether they have knowledge of any actual, suspected or alleged fraud, including cases of fraud raised by employees or other parties.
- We held discussions with the Chair of the Audit and Risk Committee including in respect of the risks of fraud in the Board and considered the implications for the audit.

- We identified 20 relevant IT systems and applications which contribute to the production of the Board's financial statements, with the majority of these systems and applications being hosted nationally.
- Our work did not identify any significant weaknesses in the Board's systems of internal control. We did however identify some areas for improvement in relation to user access controls and segregation of duties which management has investigated and where able, implemented amendments or additional controls.

4. Wider Scope Dimensions

Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the Board's arrangements for the four wider scope audit dimensions.

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. For each of the dimensions, we have applied a RAG rating using auditor judgement. The rating represents our assessment on the adequacy of the Board's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension. The rating takes account of both external risks not within the Board's control and internal risks which can be managed by the Board, as well as control and process observations made through our audit work.

- Financial Sustainability: Considers the medium and longer term outlook to determine if planning is effective to support service delivery.
- Financial Management: Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- Vision, leadership and governance: Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.
- Use of resources to improve outcomes: Considers how audited bodies make best use of their resources to meet stated outcomes and improvement objectives through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources and reporting against outcomes.

Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. We have considered the best value principles through each wider scope dimension.

Our considerations and audit work in respect of the wider scope dimensions recognise the external factors significantly impacting the Board, including the ongoing recovery from the Covid-19 pandemic, the increasing demand for services and the high inflationary environment. Our areas of audit focus have therefore taken cognisance of the external challenges facing the Board.



Financial Sustainability

Our overall assessment: Red



The financial environment in which the Board operates was already challenging, and the Covid-19 pandemic, alongside the impact of the economic and geopolitical environments, including supply chain challenges, has resulted in further, significant financial pressures, and creates a risk that the Board will not be able to develop viable and sustainable financial plans.

The Board submitted a three-year financial plan in March 2023 to the Scottish Government which outlines annual deficits of £71.1 million in 2023/24, £79.8 million in 2024/25 and £54.5 million in 2025/26 resulting in a cumulative deficit of £210 million with £225 million of savings to be achieved across the three year period from 2023-2026. This deficit reduced marginally in April 2023 by a total of £5 million to £205 million following approval of a revised medium term plan. In order for the Board to achieve breakeven a total of £509 million of savings will be required over the next three financial years. Management continue to explore options to deliver savings, however the scale of the challenge is significant and will require collaboration both within the Board and other stakeholders. It will also require the Board to deliver savings on a recurring basis. which has historically been an area of challenge, with only a third of savings in recent years being made on a recurring basis. Our assessment reflects the ongoing challenges facing the Board, the NHS and considers the level of risk and uncertainty outside the Board's control which could impact it's ability to deliver savings.

The context for financial sustainability in the health sector

Scotland's public services are facing unprecedented challenges. In May 2023, the Scottish Fiscal commission published their report on Scotland's Economic and Fiscal Forecasts which showed that forecast spending could exceed funding by 2% (£1 billion) in 2024/25, rising to 4% (£1.9 billion).

The Auditor General for Scotland publishes an annual report on the performance of the NHS in Scotland. The NHS in Scotland 2022 report highlights how the growing financial pressures present a real risk to the investment needed to recover and reform NHS services. The challenges facing the NHS extend beyond finance and cover workforce shortages, pressures on the social care system and the ongoing impact of Covid-19. The Scottish Government needs to be clearer about how long it will take the NHS to recover from the Covid-19 pandemic and to reform services. The government's NHS recovery plan aims to reduce the healthcare backlog and change how services are delivered.

For 2022/23, NHS boards' 2022/23 financial plans set out a significant challenge with only 3 territorial boards' and 7 national boards' projecting breakeven. Total savings of £620.6 million were forecast to be required to break even.



The financial pressures across the public sector means that the Scottish Government has limited room to make changes to budgets moving forward. Faster reform is needed to protect public services in the long term and improve people's lives.

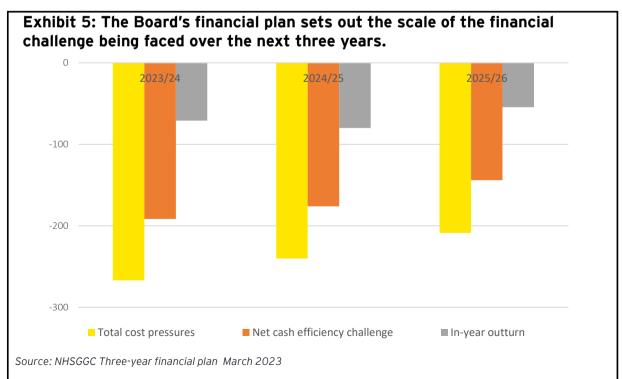
NHS boards have returned to medium-term financial planning and have prepared three-year financial plans covering the period to 2025/26. The Scottish Government has brought back financial support, known as brokerage, for Boards with a financial deficit.

Workforce remains a key priority areas for the sector with the Scottish Government introducing a new National Workforce Strategy for Health and Social Care (2022) to address significant pressures facing the NHS workforce. Use of bank and agency staff increased by 36% in 2021/22 to £321 million from £166.5 million in 2017, a 92.9% increase.

Development of medium term financial plans

The Scottish Government requested that a 3-year financial plan was submitted by all boards in February 2023 with a final version in March 2023. The Board's financial plan, as set out in Exhibit 5, shows a total deficit over the 3-year period of £210 million. Forecast savings over the period are £225 million, representing £75 million per annum. The savings level of £75 million are based on the Scottish Government baseline target of 3% savings per annum.

The total deficit reduced marginally in April 2023 by $\pounds 5$ million to $\pounds 205$ million following Board approval of a revised medium-term plan. In order for the Board to achieve breakeven over the period a total of $\pounds 509$ million of savings will be required.



The financial plan carries a number of significant assumptions particularly in respect of pay and non-pay inflationary increases:

- Pay: The financial plan takes into account Scottish Government guidance with a 2% uplift assumed each year equating to an uplift of circa $\pounds 47$ million in 2023/24. The Board recognises the uncertainty in respect of ongoing pay negotiations however the assumption is that any pay increases will be fully funded. The plan was prepared before the junior doctors proposed pay award was announced and therefore this will need built into revised financial plans. The offer remains to be finalised however the estimated impact for 2022/23 in respect of the backdated element being £5 million.
- Prescribing: Detailed prescribing cost growth projections for 2023/24 were still being reviewed at the time of drafting the 3-year plan with an updated position reported in April 2023 to the Board as illustrated in Exhibit 6. The significant pressures in this area are clear including due to short supply, inflation and higher volumes. Work needs to continue to reduce this cost pressure as the Board recognises it cannot sustain the level of increase experienced year on year.
- Other supplies: The Board has performed a review of the impact of inflation in 2022/23 with this being used to inform the application of a rate of 5% for 2023/24 reducing to 2% by 2025/26 as illustrated in Exhibit 6 with the inflationary impact in 2023/24 being £59.7 million.

Funding and income increases are not sufficient to address the increasing cost drivers with significant recurring deficits brought forward alongside new cost pressures as set out in Exhibit 6.

Exhibit 6: The Board faces significant cost pressures in future years.				
Cost drivers	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	
Recurring brought forward deficit	(119.7)	(115.9)	(100.4)	
Pay cost growth (2% fully funded)	(48.7)	(48.6)	(51.1)	
Prescribing - Acute	(20)	(20.5)	(20.6)	
Prescribing - Primary Care	(15.7)	(8.2)	(8.2)	
Supplies, PPP & other inflation	(59.7)	(40.7)	(22.8)	
Unavoidable pressures and investments	(10.9)	(5.5)	(5.0)	
Total cost pressures and brought forward deficit	(273.9)	(239.4)	(208.1)	

While the cost pressures set out within the financial plan are significant, there is a risk that costs could increase further and funding reduce. The financial plan highlights a number of risks to delivery including:

- Inflation there is a risk that inflation will be higher than forecast.
- Pay award the plan has assumed that the pay award is fully funded however there are concerns over the impact of the 2023/24 award and whether this will be fully funded. The plan is based on a 2% pay uplift which was prior to the agreement of the 2023/24 pay award.
- Pressures there remains significant pressures associated with areas such as additional beds, winter and unscheduled care.
- Covid 19 Assumptions within the plan are that the costs of these are fully funded. There is a significant risk around the programme for vaccinations as the funding allocated does not cover the costs of the programme.
- Delayed discharges delayed discharges continue to have a significant impact at the Board with the number of delays sitting at over 300.
- Legal costs/public inquiry The QEUH public enquiry and legal proceedings raised by the Board against the main contractors for losses and damages incurred in relation to a number of technical issues will inevitably lead to the Board incurring substantial legal and professional advisor costs over the next two to three years.
- IJB Outturn there is a risk that the Board may have a liability for any IJB deficits. If there is no direct financial impact, there is likely to be an impact on services due to savings they are required to make.
- Savings there is a risk that the Board cannot achieve the £75 million recurring savings target.

Given the already identified deficit, requirement to deliver 3% savings and the associated risks of reduced funding and increased costs, the importance of a robust mechanism for delivering recurring savings is critical. Refer to Appendix G, recommendation 11.

Sustainability and Value Group

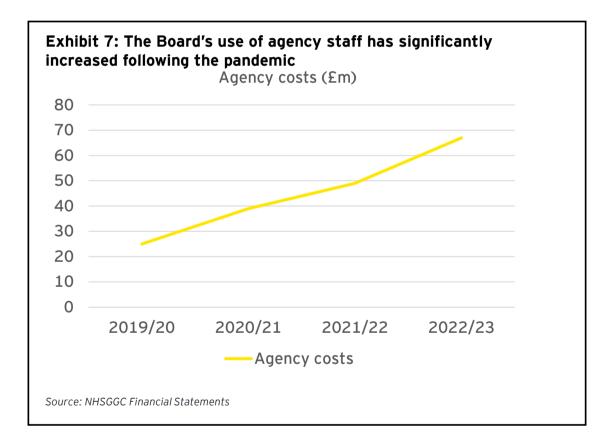
The Board recently transitioned their Financial Improvement Programme to the Sustainability and Value Board ('S&V Board'). The S&V Board has a wider remit than the previous programme and reflects the nationwide approach which acknowledges the requirement for a wider and more holistic approach to sustainable service provision over a prolonged timescale.

The S&V Board invited savings plans in February 2023 with development of confirmed plans in March 2023. The S&V Board will then provide challenge to the plans with regular monitoring of progress throughout the financial year. As at April 2023, the initial plans and trajectory of savings plans were not sufficient to achieve the financial targets for 2023/24 and therefore significant work will be required to ensure delivery of the savings targets both for this financial year and beyond which is recognised by the Board.



The S&V Board additionally performed a self-assessment against the national levels of work and focus, noting no significant gaps in the areas being targeted however opportunities for expansion were noted.

Workforce is a significant feature of savings plan streams, with Audit Scotland's annual overview report highlighting workforce as one of the biggest risks to NHS recovery. Following the pandemic and in line with the national position, the Board's use of agency and bank staff has increased significantly in order to support staffing shortages. There is both a national and local focus on ensuring that a more stable workforce across the NHS is established which in turn should support the reduction of both agency and bank staff.





Financial Management

Our overall assessment: Amber



The Board met all financial targets in 2022/23 with an underspend of £0.783 million against their revenue resource limit, following an updated allocation letter issued on 23 June 2023. The financial position throughout the year was challenging and the majority of savings delivered to reach financial balance were done so on a non-recurring basis. The Board continues to review and identify areas to deliver recurring savings to ensure their medium and long-term sustainability.

The Board is by the far the largest health board in Scotland, however the number of qualified accountants is comparable to most other boards. We have noted that there is significant dependency on a small number of key individuals for complex and technical accounting matters. While changes are planned, this should be a key area of focus for the Board alongside ensuring that appropriate succession planning arrangements are in place for key finance roles.

Financial Performance

The Scottish Government has brought back the previous financial reporting regime, with financial support, known as brokerage, returning for boards predicting a financial deficit. All boards have to work within the resource limits and cash requirements set by the Scottish Government. All key financial targets were met by the Board in 2022/23 with the Board delivering an underspend of £0.757 million against its revenue resource limit, following a revised RRL allocation issued on 23 June 2023.

Exhibit 8: Following a revised allocation letter issued on 23 June 2023, the Board met all financial targets in 2022/23

Financial Target	Limit (£'000s)	Actual (£'000s)	Variance (£'000s)
Revised Core revenue resource limit (RRL)	2,944,626	2,943,843	783
Non-core revenue resource limit	109,533	109,533	0
Capital resource limit (CRL)	98,297	98,290	7
Cash requirement	3,530,713	3,530,713	0

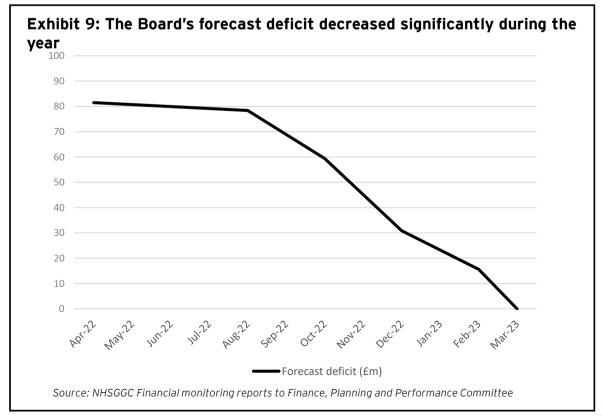
Source: NHSGGC Financial Statements

The Board's financial position improved significantly during the year. The overall financial plan for 2022/23 set out an overall financial challenge of £174.5 million. Of this, £54.8 million of savings were delivered on a recurring basis, with £119.7 million on a non-recurring basis. While there was an increase in the level of recurring savings delivered compared to 2021/22, the level of savings delivered on a non-recurring basis was consistent with prior years. The Board's reliance on non-recurring solutions is unsustainable in the medium to long term. Significant savings requirements have now existed for a number of years which means that in order to deliver a higher level of recurring savings, the Board must look to more significant savings programmes, likely involving service redesign which will take time to embed.

Financial monitoring

The Board's financial performance was monitored throughout the year by management and the Finance, Planning and Performance Committee . There is evidence of financial monitoring, reporting and planning by the Board and Finance, Planning and Performance Committee through the financial year, up to the approval of the 2023/24 budget and the medium-term financial plan.

Throughout 2022/23 management reported budget pressures and variances through its management accounts. These were significant in the year with the Board achieving a small underspend against the original forecast deficit (post achievement of savings) of £81.5 million. Exhibit 9 illustrates the forecast deficit as reported to Finance, Planning and Performance Committee.



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Capital programme

The Board achieved an underspend of £0.007million against their capital resource limit of £98.297 million, this included a £3.3 million transfer from capital to revenue to ensure appropriate allocation of capital spend between revenue and capital. Total infrastructure investment for 2022/23 was £102.5 million including continuing works on Glasgow North East Health Centre (Parkhead) of £19.2 million and medical equipment of £21.3 million.

The Board is developing an Infrastructure Investment Strategy which will link with the vision set out in the Moving Forward Together Strategy and will operate alongside both the Clinical Service Plan and Estate Plan. Pressures exist on capital budgets across the public sector with rising inflation resulting in less funds being available. A comprehensive strategy should enable the Board to determine the best use of the capital funds available.

Financial skills and capacity

The Board's finance team is experienced in NHS finance, however we noted that there is dependency on a small number of key individuals for the more complex and technical accounting matters. The team has experienced turnover in recent years, including at a senior level which presents an opportunity for the Board to strengthen both the skills and capacity within the team. Management are underway with plans to strengthen the team, both through recruitment and training. A key focus for the team should be ensuring that appropriate succession planning is in place for key roles within the team as set out in Appendix G, recommendation 12.

Counter fraud arrangements

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

The Board has a formal partnership with NHS Scotland Counter Fraud Services ('CFS'). These arrangements include the Fraud Liaison Officer circulating reports to the Audit and Risk Committee and appropriate managers. Reports from CFS highlight any referrals from the Board and are presented quarterly to the meetings of the Audit and Risk Committee, with an annual report presented each June.

The National Fraud Initiative is a bi-annual counter fraud exercise across the UK public sector which aims to support public sector bodies in preventing and detecting fraud. We carried out a review of the Board's participation in the current NFI exercise and concluded that the Board is appropriately engaged. The approach to investigating matches is well understood and the number of matches investigated as part of the exercise appears reasonable. Participation in NFI is also reported to the Audit and Risk Committee.



System of internal control

Within the Annual Governance Statement, the Board has concluded that they have obtained assurance that the system of internal control was operating effectively during the year with no exceptions or issues identified. Through our audit of the financial statements, we consider the design and implementation of key controls related to areas of significant risk to the financial statements. This work has included documenting the key internal financial controls and performing walkthroughs to ensure controls are implemented as designed.

We undertook an initial assessment of the financial control environment as part of our planning work in February 2023, and updated our understanding as part of the yearend audit. Following the revisions to the ISA (UK) 315, there were revisions to our audit methodology including a greater focus on the Board's use of IT in the system of internal control.

Our work did not identify any significant weaknesses in the Board's systems of internal control. We did however identify some areas for improvement across user access controls, segregation of duties and inventory controls. Refer to Appendix G, recommendation 9.

Vision, leadership and governance

Our overall assessment: Green



The Board has a focus on continuous improvement as demonstrated through the ongoing implementation of NHS Scotland's Blueprint for Good Governance. Features of good governance have been demonstrated by the Board during the year.

The Board has experienced significant turnover in key roles within the Executive Management team and the Chair of the Board will also complete his appointment in November 2023. The Board should continue to ensure there are appropriate transition arrangements for key senior roles.

The Board continues to highlight cyber threats as a key risk area and continues to seek support from external experts to ensure there is an appropriate control environment to mitigate the risk. The Board continues to assess, and where appropriate, update the arrangements it has in place to respond to the Scottish Public Hospitals Inquiry, the ongoing police investigation and the legal proceedings against the parties responsible for delivering the QEUH/RHC construction project. However, the challenges are significant, and are placing additional pressures on senior management that need to be balanced with other priorities.

Annual Governance Statement

The Board has demonstrated through the year that it has the key requirements for good governance. The key aspects of governance arrangements require to be disclosed in the Annual Governance Statement within the financial statements. We reviewed the governance statement against the requirements outlined in the Scottish Public Finance Manual and our understanding of the Board up to 31 March 2023.

We were satisfied that it was consistent with both the governance framework, key findings from relevant audit activity and management's assessment of its own compliance with the Scottish Public Finance Manual.

Governance arrangements

Like all other public bodies in Scotland, the Board moved to revised governance arrangements at the beginning of the UK lockdown period. The full committee timetable resumed from March 2021. Board and Committee meetings have continued to operate in a hybrid structure through 2022/23. We are satisfied that there is an appropriate level of challenge and scrutiny at meetings throughout the year.



During 2022/23, there has been a number of changes within the executive management team including a new Nurse Director, Director of Public Health and Director of Finance. This means that there has been turnover within 60% of the executive member roles however we are satisfied that there has been appropriate transitional arrangements.

The Chair of the Board's term of appointment concludes in November 2023, having served as Chair since December 2015. The loss of an experienced Chair with significant knowledge of the Board will be significant and therefore it is important that the Board has appropriate transition arrangements established.

Internal audit

Internal audit's opinion for the year was based on its agreed audit plan for the year, as approved by the Audit and Risk Committee. For 2022/23, the internal auditor's opinion notes that, 'NHSGGC has a framework of governance and internal control that provides reasonable assurance regarding the effective and efficient achievement of objectives.'

Only reports with a higher risk gradings are currently presented to the Audit and Risk Committee. While we understand the need to ensure that Board committees have sufficient time to focus on higher risk areas, best practice would be for the Audit and Risk Committee to receive all reports, regardless of grading, to enable them to have the opportunity to effectively scrutinise and challenge all internal audit reports. Refer to Appendix G, recommendation 13.

Cyber security

There continues to be a significant risk of cyber attacks to public bodies. A number of recent incidents have demonstrated the significant impact that a cyber attack can have on both the finances and operation of an organisation. In 2022/23, Audit Scotland has asked us to consider risks related to cyber security at audited bodies.

Cyber threats feature on the Board's corporate risk register and mitigating actions to address this risk are reviewed on a regular basis by the Audit and Risk Committee. We are satisfied that this continues to be an area of focus for the Board and there is evidence of the Board seeking external assurance of controls in place through internal audits, Network and Information System audits, discussions with National Cyber security teams and external penetration testing companies. The Board continue to identify and implement areas through these reviews and a review of the cyber incident response plan is underway.

Blueprint for Good Governance

The second edition of NHS Scotland's Blueprint for Good Governance was published in December 2022. The Board has been working to implement the framework and the active governance programme over the past two years. A short-life working group has been established to take forward the design of assurance information flows at Board level.

Regular updates on the active governance framework are presented to the Board. We are satisfied that the Board has appropriate arrangements in place to implement the Blueprint for Good Governance and will continue to monitor implementation during 2023/24.

QEUH/RHC

We identified matters in respect of the QEUH and RHC to be an area of wider scope focus. Our procedures in this area were limited to:

- Considering the progress of the Inquiry, including update reporting to the Board
- Assessing the impact of the inquiry on management and the Board's capacity; and
- Considering the potential accounting implications of any developments and the appropriateness of financial statement disclosures.

Scottish Hospitals Public Inquiry

in August 2020, the Scottish Hospitals Inquiry ('the Inquiry') into the construction of the Queen Elizabeth University Hospital ('QEUH') campus, including the Royal Hospital for Children('RHC'), and the Royal Hospital for Children and Young People in Edinburgh was launched. A Project Management Office ('PMO') was established by the Board in 2019 to manage the external review in relation to the QEUH and RHC. The PMO is responsible for managing the inquiry requirements in terms of administration and document flow and assessment.

The PMO'S resources increased during 2020/21, with a single team created to manage both the Inquiry and legal claims. An Executive Oversight Group was established to ensure effective and transparent decision making which meets weekly to support decision making.

The workload arising from information requests to support the Inquiry is significant. This includes both document requests and specific questions that require a written response. An executive working group has been established to ensure effective coordination of all responses. This group reports to the Executive Oversight Group.

A procedural hearing took place on 20 March 2023 with evidential hearings scheduled from 12 - 23 June 2023 in relation to the QEUH Campus.

Both the Board and Finance, Planning and Performance Committee have received regular updates on all matters associated with the QEUH, including the Inquiry throughout 2022/23.

QEUH Legal Proceedings

In December 2019, the Board initiated court proceedings against the parties responsible for delivering QEUH/RHC construction project and engaged solicitors (MacRoberts LLP) to act on its behalf. Legal proceedings have been initiated for

losses and damages incurred in relation to a number of technical issues identified within both the QEUH and RHC. These include issues with the water and ventilation systems, plant and building services capacity, glazing, doors, the heating system, the atrium roof, internal fabric moisture ingress and the pneumatic transport systems.

The contractors challenged the court action against them however the legal debate was heard and found in favour of the Board. In addition, permission to appeal was put forward by the contractors but it was subsequently refused. The Court sisted the action to allow the claims to be adjudicated and preparation for this continues. The Board has also lodged additional claims in relations to issues with the chilled water system and internal cladding.

In September 2021, Police Scotland announced an investigation into four deaths at the QEUH campus. A single point of contact has been set up through which requests for staff access and interviews are made. Guidance and witness support has been made available for staff. The investigation remains ongoing at the time of preparing this report.

In addition, the Board has received 30 intimations of claim in respect of QEUH and RHC which have been considered through our work set out on page 26. The Board continues to work closely with the CLO on the related themes, however all claims are currently sisted.

There remains significant uncertainty over the outcome of both existing claims for and against the Board and potential future legal proceedings. The overall cost to the Board is therefore unknown. A contingent liability has been disclosed within the financial statements to recognise the possible obligations which may arise throughout the processes.



Use of resources to improve outcomes

Our overall assessment: Red



The Board considered regular performance updates against the Annual Delivery Plan measures throughout the year. Performance has improved against the Board's KPIs during 2022/23, with 66% of targets being met compared to 48% in 2021/22. However, it should be noted that 25 targets were included within the remobilisation plan reported on in the prior year compared to the 15 targets reported against in 2022/23. While the overall trajectory shows improvement, there are significant challenges in performance across three key areas: cancer treatment times; accident and emergency treatment times and delayed discharges. Increasing demand for services, including cancer referral rates, present challenges in improving performance however despite these challenges, significant improvement in these areas is required, a position common across NHS Scotland.

NHS Scotland has set ambitious climate change targets with the target to be net zero by 2040. The Board in 2023/24 has recognised the importance of incorporating key climate change and sustainability objectives into its Annual Delivery Plan and medium-term delivery plans. A Sustainability Strategy is due to be endorsed by the Board in August 2023. The establishment of this strategy will provide the Board with a mechanism to set a clear pathway to achieving the NHS Scotland target.

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

The NHS in Scotland 2022 report highlights the difficulty in accurately measuring the progress of the Scottish Government's NHS Recovery Plan. The document does not contain detailed actions that allow overall progress to be accurately measured. The challenges facing the NHS in Scotland are unprecedented and this means that the Scottish Government will have to make difficult choices and prioritise which ambitions it can deliver against. The report highlights the need for transparency or what progress is or is not being achieved.

Moving forward together

Moving Forward Together ('MFT') is the Board's key strategic document which, in tandem with the annual delivery plan, describes the vision for clinical services and supports the delivery of the Board's corporate aims.



The plan was originally approved by the Board in 2018 however the plan required a further review following the Covid-19 pandemic to ensure it remained reflective of the current operating environment and remobilisation and recovery targets.

The plan is ambitious and will require significant transformation within the Board. In order to deliver a financially sustainable NHS service, significant transformation is required, however the Board's ability to deliver such transformation continues to be impacted by:

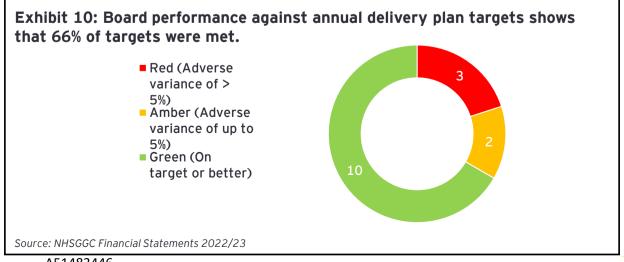
- Financial pressures;
- Workforce shortages;
- Pressures on the social care system; and
- The ongoing impact of the Covid-19 pandemic.

The planning landscape for the NHS is complex due to the interdependencies with national Scottish Government priorities and other stakeholders such as the Health and Social care partnerships and local authorities. The Board needs to continue to strengthen partnership working in order to deliver the corporate aims set out within MFT.

Performance reporting

Performance updates have been considered throughout the year at both Board and relevant committees. Performance reports are available to the public through publication on the Board's website.

Reports provide a summary of performance against key performance indicators outlined in the Performance Assurance Framework and based on the measures contained within the 2022-23 annual delivery plan alongside the planned care measures and key local and national performance measures. We are satisfied that Board performance reports are sufficiently detailed to enable members and the public to understand and challenge the Board's performance. Performance against the annual delivery plan targets is also set out within the 2022/23 annual report and accounts as illustrated in exhibit 10.



While this indicates a positive improvement in performance compared to 2021/22 where less than 50% of targets were met, it should be noted that 25 targets were included within the remobilisation plan reported on in the prior year compared to the 15 targets reported against in 2022/23.

Performance in some areas continue to experience significant challenges and these should be the primary focus for the Board:

- Access to cancer services the Board reported a provisional position for the quarter ending March 2023 that 59.1% of cancer patients started their first cancer treatment within 62 days of urgent referral with a suspicion of cancer against a target of 80% (2021/22: 72.4%). Performance in this area shows both underperformance against target and a significant deterioration in performance in comparison to the prior year. The Board has been impacted by a sustained increase in referrals. Public Health Scotland reported in March 2023 that new cancer diagnoses increased by 5.5% in 2021 compared to 2019. This continues to be a key area of focus for the Board with waiting list initiative activities underway and outsourcing taking place. Longer term solutions to increase capacity will be required.
- Accident and Emergency 4 hour Waiting times Standard the Board reported a 12 month average of 70.5% of patients were treated in line with the 4 hour waiting times standard against a target of 95% (2021/22: 71.7%). This demonstrates a significant shortfall in performance against target with a minor decline in comparison to prior year performance. The performance in accident and emergency stems from both increased demand for services and challenges with patient flow, including those caused by delayed discharges. A number of initiatives are underway to improve performance including the 'Right care, right place' campaign, continuous flow model implementation and strengthening staffing during peak periods.

Delayed discharges - the Board reported that the number of delayed discharges was at 364 based on the monthly average against a target of 287 (2021/22: 299). The number of delayed discharges has increased significantly in recent years from approximately 100 patients in 2019 to over 300 currently. The Board continues to work with partners including the Health and Social Care partnerships and local authorities to improve this position. The Board established the 'Discharge without Delay' programme to ensure patients are discharged to a suitable and homely setting at the earliest opportunity.

Climate change

Scotland has set a legally binding target of becoming net zero by 2045, and has interim targets in place including a 75% reduction in greenhouse gas emissions by 2030. NHS Scotland is however aiming to become a net zero health organisation by 2040 with an NHS Scotland Climate Emergency and Sustainability Strategy being published in August 2022. Audit Scotland has asked for specific audit work to be conducted in 2022/23 on the arrangements to respond to climate change as part of a developing programme of work.



While sustainability has often existed as a separate workstream in many organisations, the Board in 2023/24 has recognised the importance of incorporating key climate change and sustainability objectives into its Annual Delivery Plan and medium-term delivery plans. These include specific measurable short-term targets which will enable the Board to assess progress against their climate and sustainability ambitions.

The Board's Sustainability Strategy is currently going through governance approvals and is expected to be endorsed by the Board in August 2023. The establishment of this Strategy will provide the Board with a clear pathway to achieving the ultimate goal of achieving net zero heat GHG emissions by 2038 and an overall position of net zero emissions by 2040. An important part of the embedding of this Strategy will be to ensure there are clear annual targets in place to achieve these ambitions and ensuring that there are sufficient resources for the Board to do so.



Appendices

- A Code of Audit Practice Responsibilities
- B Independence report
- C Required communications with the Audit and Risk Committee
- D Timing of communications and deliverables of the audit
- E Audit fees
- F Adjusted and unadjusted audit differences
- G Action Plan
- H Additional audit information



Audited Body Responsibilities

Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. The features of proper financial stewardship include the following:

Corporate governance

Each body, through its chief executive or 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. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

Financial statements and related reports

Audited bodies must prepare annual accounts comprising financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their 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 their accounts 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

- preparing and publishing, along with their financial statements, related reports such as an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements
- ensuring that the management commentary (or equivalent) is fair, balanced and understandable.

It is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the 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.

Audited bodies are 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 their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and riskmanagement functions.

Standards of conduct for prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.



Maintaining a sound financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and their future use;
- how they plan to deal with uncertainty in the medium and longer term; and
- the impact of planned future policies and foreseeable developments on their financial position.

Internal audit

Public sector bodies are required to establish an internal audit function as a support to management in maintaining effective systems of control and performance. With the exception of less complex public bodies the internal audit programme of work is expected to comply with the Public Sector Internal Audit Standards and, other than local government, requirements set out in the Scottish Public Finance Manual.

Internal audit and external audit have differing roles and responsibilities. External auditors may seek to rely on the work of internal audit as appropriate.

Appointed Auditors' Responsibilities

Appointed auditors' statutory duties are derived from appointment by the Auditor General under the Public Finance and Accountability (Scotland) Act 2000. Appointed auditors' reports (i.e., the independent auditor's report in relation to the accounts) must set out the auditor's findings on:

- whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with:
 - any enactment by virtue of which the expenditure was incurred or the income received
 - the Budget Act(s) for the financial year, or any part of the financial year, to which the accounts relate
 - Sections 4-7 of the 2000 Act, relating to the Scottish Consolidated Fund (the Fund)
- where sums have been paid out of the Fund for the purpose of meeting such expenditure, whether the sums were applied in accordance with Section 65 of the Scotland Act 1998
- whether the expenditure and receipts shown in the accounts were incurred or applied in accordance with any applicable guidance (whether as to propriety or otherwise) issued by the Scottish ministers
- whether the accounts comply with any applicable direction by virtue of any enactment.
- Appointed auditors must send the accounts, including the independent auditor's report, to the Auditor General who may prepare a statutory report on the accounts under Section 22 of the 2000 Act.



Introduction

The FRC Ethical Standard and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

During the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY charged to you for the provision of services during the period, analysed in appropriate categories, are disclosed.

Required Communications

Planning Stage

- The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your directors and us.
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review.
- The overall assessment of threats and safeguards.
- Information about the general policies and process within EY to maintain objectivity

and independence.

Final Stage

- To allow you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed.
- Details of non-audit/additional services provided and the fees charged in relation thereto.
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us.
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence.
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy.
- An opportunity to discuss auditor independence issues.

We confirm that we have undertaken client and engagement continuance procedures, including our assessment of our independence to act as your external auditor. We have identified no relationships that impact the audit of NHS Greater Glasgow and Clyde. We have detailed below the communications that we must provide to the Board.

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	Annual Audit Plan - March 2023
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Annual Audit Plan - March 2023
Significant findings from the audit	 Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures Significant difficulties, if any, encountered during the audit Significant matters, if any, arising from the audit that were discussed with management Written representations that we are seeking Expected modifications to the audit report Other matters if any, significant to the oversight of the financial reporting process Findings and issues regarding the opening balance on initial audits 	This Annual Audit Report



Appendix C continued

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Our Reporting to you

1

Required communications	What is reported?	When and where
Going concern	 Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: Whether the events or conditions constitute a material uncertainty; Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and, The adequacy of related disclosures in the financial statements. 	This Annual Audit Report
Misstatements	 Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation; The effect of uncorrected misstatements related to prior periods; A request that any uncorrected misstatement be corrected; Corrected misstatements that are significant; and, Material misstatements corrected by management. 	This Annual Audit Report
Fraud	 Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity; Any fraud that we have identified or information we have obtained that indicates that a fraud may exist; and, A discussion of any other matters related to fraud. 	This Annual Audit Report
Internal controls	Significant deficiencies in internal controls identified during the audit.	This Annual Audit Report
Material inconsistencies/ misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	This Annual Audit Report



Appendix C continued

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Our Reporting to you

Dec. 1.		
Required communications	What is reported?	When and where
Related parties	 Significant matters arising during the audit in connection with the entity's related parties including, when applicable: Non-disclosure by management; Inappropriate authorisation and approval of transactions; Disagreement over disclosures; Non-compliance with laws and regulations; and, Difficulty in identifying the party that ultimately controls the entity. 	This Annual Audit Report
Independence	 Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: The principal threats Safeguards adopted and their effectiveness An overall assessment of threats and safeguards; and, Information about the general policies and process within the firm to maintain objectivity and independence. 	Annual Audit Plan - March 2023 This Annual Audit Report
External confirmations	 Management's refusal for us to request confirmations. Inability to obtain relevant and reliable audit evidence from other procedures. 	This Annual Audit Report
Representations	Written representations we are requesting from management and/or those charged with governance.	This Annual Audit Report
Auditors report	Any circumstances identified that affect the form and content of our auditor's report.	This Annual Audit Report



Appendix C continued

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	 Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off. Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of. 	This Annual Audit Report
Best Value and Wider Scope judgements and conclusions	Our reporting will include a clear narrative that explains what we found and the auditor's judgement in respect of the effectiveness and appropriateness of the arrangements that audited bodies have in place regarding the wider scope audit.	This Annual Audit Report
Key audit matters	The requirement for auditors to communicate key audit matters, which apply to listed companies and entities which have adopted the UK Corporate Governance Code in the private sector, applies to annual audit reports prepared under the Code.	This Annual Audit Report
Group matters	 An overview of the type of work to be performed on the financial information of the components. An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components. Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work. Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted. 	This Annual Audit Report



Page 794 Appendix D: Timeline of communication and deliverables

	Audit Activity	Deliverable	Timing
January	Planning: Risk assessment for Financial Statements and wider scope audit		
February	dimensions		
	Walkthrough of key	Annual Audit Plan	March 2022
March	systems and processes, including internal controls.	Submission of quarterly fraud return	March 2023
	Interim audit testing.		
April			
Мау	Year end audit fieldwork	Submission of	
		quarterly fraud return	
June			
	Audit completion procedures	Annual Audit Report	30 June 2023
July			

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Appendix E: Audit Fees

2022/23 Fees

The Board's audit fee is determined in line with Audit Scotland's fee setting arrangements. Audit Scotland will notify auditors about the expected fees each year following submission of Audit Scotland's budget to the Scottish Commission for Public Audit, normally in December. The remuneration rate used to calculate fees is increased annually based on Audit Scotland's scale uplift.

	2022/23	2021/22
Component of fee:		
Auditor remuneration – expected fee	£392,220	
Agreed additional audit procedures (see below)	£150,000	
Audit Scotland fixed charges:		
Pooled costs	£35,490	
Audit support costs	£15,340	
Sectoral cap adjustment	£63,260	
Total fee	£656,310	£415,810

As we outlined in our audit planning report, the expected fee for auditor remuneration, set by Audit Scotland, is based on a risk assessment of publicly available information from the 2021 tender exercise. It assumes that the Board has well-functioning controls, an effective internal audit service, and an average risk profile for its sector across a range of areas for consideration, including financial, operational and governance risks. This is the basis for the estimated level of time and skill mix involvement by auditors.

Throughout the course of their work, auditors may identify new, developing or otherwise enhanced areas of risk that are required to be addressed to deliver an audit to the quality standards expected, and in line with the requirements of the Audit Scotland Code of Practice. In these cases, where subsequent additional work is required because of local risks and circumstances in a body, auditor remuneration may be increased by up to 10% of auditor remuneration in agreement with the Board, or above 10% in agreement with Audit Scotland.

Through the course of our yearend audit procedures we identified material areas of additional scope of work required to conclude our audit in line with auditing standards. We shared an assessment of the additional time and costs with management, and have notified Audit Scotland of the variation, which will be subject to Audit Scotland approval following finalisation with management. At the conclusion of the audit the variation outlined in the above table was agreed. In respect of payroll, the activity shortfall accrual, and QEUH, these are areas where work continued up to the date of approval of the financial statements and therefore are subject to discussion with management regarding the final fee position.

The fee variation amount is driven by the staff mix required in the areas of work noted, recognising that some areas require more senior or expert time compared to other more transactional work which may be completed by more junior team members. All time related to areas of additional work is charged in line with the day rates provided by Audit Scotland.



This appendix sets out the significant adjustments, processed as part of finalisation of the financial statements. This includes 50 adjustments in relation to 2022/23: 18 adjusted differences and 32 unadjusted differences. A further 14 unadjusted errors were noted in respect of 2021/22 and 1 adjusted difference.

Adjus	Adjusted differences - 2022/23			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's	
1	Duplicate accrual	CR Expenditure (£1,869)	DR Accruals £1,869	
2	Annual leave accrual classification		DR Accruals £1,392 CR Annual leave accrual (£1,392)	
3	NHS Income reclassification	DR Income from private patients £267 CR NHS Scotland bodies income (£113) CR Other NHS bodies income (£154)		
4	Prepayments classification		DR Accrued Income £6,070 CR Prepayments (£6,070)	
5	Resource transfer classification	DR Resource transfer expenditure £1,907 CR Other operating income (£1,907)		
6	Integral Software and Hardware asset adjustment		DR Plant and Machinery Cost £3,961 DR IT Accumulated Depreciation £566 CR Information Technology -(£3,961) CR Plant and Machinery - Accumulated depreciation (£566)	

Adjus	Adjusted differences - 2022/23			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's	
7	2023 additions in AUC		DR Additions £2,660 CR AUC (£2,660)	
8	2023 additions in AUC (Extrapolated)		DR Additions £1,640 CR AUC (£1,640)	
9	Hospices correction	DR Other Income £6,899 CR Staff Costs (£6,899)		
10	IFRS 16 liability - long and short term split		DR Long-term payables £3,331 CR Short-term payables (£3,331)	
11	Inventory count adjustment	DR Expenditure £527	CR Inventory (£527)	
12	SLA IFRS 15 Revenue adjustment and activity accrual removal	CR Income (£11,310) CR Expenditure (£5,413)	DR Contract Liability (£11,310) DR Accruals £5,413	
13	Double accounting of IVF Costs	CR Expenditure (£719)	DR Accruals £719	
14	SCS Eating Disorders contractual commitments accrual reversal	CR Expenditure (£643)	DR Accruals £643	
15	Strategic Fund to integrated accrual reversal	CR Expenditure (£500)	DR Accruals £500	
16	Vaccinations accrual	CR Expenditure (£6,180)	DR Accruals £6,180	

Adjus	Adjusted differences - 2022/23			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's	
17	Income reclassification	DR Other income £8,716 CR Staff Costs (£7,306) CR Other expenditure (£1,410)		
18	Study leave accrual reclassification	DR Staff Costs £8,191 CR Other Expenditure (£8,191)		
Total	<u>.</u>	(£26,107)	£26,107	

Unadju	Unadjusted differences - 2022/23			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's	
1	Prior year equipment		DR Plant and Machinery £1,969 CR Additions (£1,969)	
2	FHS accrual	CR Expenditure (£709)	DR FHS Accrual £709	
3	Depreciation Overstatement	CR Depreciation (£300)	DR Accumulated Depreciation £300	
4	FHS Debtor reclassification (Judgemental)		DR FHS Accrual £6,667 CR FHS Debtor (£6,667)	
5	Prior year IT equipment		DR Technology Cost - £1,939 CR Additions (£1,939)	
6	Prior year enhancements		DR PPE Buildings £925 CR Additions Buildings (£925)	
7	Building enhancements 2023/24 (extrapolated)		DR Assets Under Construction £6,569 CR Additions - Buildings (£6,569)	
8	Assets under construction accrual variance		DR Accruals £374 CR AUC (£374)	
9	2023 additions in AUC (Extrapolated)		DR Additions £1,640 CR AUC (£1,640)	

Unadj	Unadjusted differences - 2022/23			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's	
10	Post balance sheet provision update	DR Expenditure £1,127 CR Income (£227)	DR Debtors £227 CR Provisions (£1,127)	
11	Staff accrual update	CR Expenditure (£901)	DR Accruals £901	
12	IFRS 16 discount rate (Judgemental difference)		DR ROU Assets £2,274 CR Lease liability (£2,274)	
13	PFI/Hub liability adjustment	CR Operating expenditure (£1,041)	DR PFI/Hub Liability £1,041	
14	NHS Income adjustment	DR Other Income £12,137 CR NHS Scotland Income (£12,000) CR NHS Non- Scotland income (£137)		
15	Apprenticeship levy reclassification	DR Staff Costs £8,395 CR Other operating expenditure (£8,395)		
16	Overseas Income	DR Income £279	CR Debtors (£279)	

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Unac	Unadjusted differences - 2022/23			
No.	Description	Income and Expenditure Impact / £000's	OCI impact/ £000's	Balance Sheet Impact / £000's
17	Other operating Income M12 Exclusions	DR Income £361		CR Accrued Income £361
18	Holiday pay accrual calculation difference	CR Staff costs (£942)		DR Accruals £942
19	Double counting of QEUH Land		DR OCI - Revaluation gains and losses £500	CR Land (£500)
20	EUV double counting of land		DR Revaluation gains and losses £2,777	CR Buildings (£2,777)
21	Land and building apportionment for health centre (judgemental)			DR Buildings £1,752 CR Land (£1,752)
22	Land and building apportionment for health centres (extrapolated)			DR Building £2,698 CR Land (£2,698)
23	Ehealth over accrual	CR Expenditure (£2,375)		DR Accruals (£2,375)
24	Capital accruals	CR Expenditure (£745)		DR Accruals (£745)

Unadjusted differences - 2022/23				
No.	Description	Income and Expenditure Impact / £000's	OCI impact/ £000's	Balance Sheet Impact / £000's
25	Overstatement of prepayments	DR Expenditure £266		CR Prepayments (£266)
26	Accruals adjustments			DR Accruals (£11,688) CR Deferred Income (£11,688)
27	Accruals Omissions	DR Expenditure £1,900		CR Accruals (£1,900)
28	South Agency accrual	DR Expenditure £259		CR Accruals (£259)
29	SLA Activity revenue adjustment (judgemental)	DR Income (£5,032)		CR Contract liability (£5,032)
30	Junior doctors pay settlement	DR Expenditure £5,000		CR Accruals (£5,000)
31	Omission of accruals	DR Expenditure £1,380		CR Accruals (£1,380)
32	Provision in respect of legal matter	DR Expenditure £400		CR Provisions (£400)
33	Overstatement of office space		Dr Revaluation reserve £363	Cr Buildings (£363)
Tota		(£2,580)	£3,640	(£1,060)

Unadju	Unadjusted differences - 2021/22			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's	
1	Equipment capitalisation		DR Additions £1,969 CR Assets under construction £1,969	
2	FHS Accrual	CR Expenditure (£2,267)	DR FHS Accrual £2,267	
3	IT equipment capitalisation		DR Technology Cost - £1,939 CR Assets under construction - (£1,939)	
4	Buildings capitalisation (extrapolated)		DR Additions - Buildings £729 CR AUC (£729)	
5	Building Enhancements		DR Additions Buildings £925 CR AUC (£925)	
6	Double counting of IVF Costs	CR Expenditure (£723)	DR Accruals £723	
7	Misclassification of Holiday pay balances		DR Accruals £14,985 CR Holiday pay Accrual (£14,985)	
8	PFI/Hub liability adjustment (including brought forward differences)	CR Expenditure (£13,328)	DR PFI (£13,328)	
9	Removal of hospices income and staff costs	DR Income £6,154 CR Expenditure (£6,154)		

Unadju	Unadjusted differences - 2021/22			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's	
10	NHS Income adjustment (Judgemental)	DR Other Income £9,520 CR NHS Scotland Income (£9,260) CR NHS Non-Scotland Income (£260)		
11	Apprenticeship levy reclassification	DR Staff costs £7,447 CR Other Operating Expenditure (£7,447)		
12	Study leave accrual reclassification	DR Staff costs £7,041 CR Other operating expenditure (£7,041)		
13	Overseas Income	CR Overseas Income (£279)	DR Accrued income £279	
14	SLA Activity revenue adjustment (judgemental - 2020/21 and 2021/22 impact)	DR Income £8,655	CR Contract Liability (£8,655)	
Total		£7,663	£7,663	

Adjusted differences - 2021/22			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's
1	SLA IFRS 15 Revenue adjustment and activity accrual removal	DR Income £62,552 CR Expenditure (£98,082)	DR Accruals £98,082 CR Contract Liability (£62,552)
Total		(£35,530)	£35,530



Classification of recommendation

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Board or management to action.

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Classification of recommendations						
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.			
No	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe			
1	Financial Statement narrative The performance and accountability report within the annual report and accounts provides the Board with an opportunity to set out their strategic objectives, performance and governance processes. While improvements have been made to streamline this narrative, there remains areas for improvement to ensure the understandability of the narrative.	Management should continue to review the narrative sections within the annual report and accounts and identify areas where this could be streamlined and simplified to aid the understandability for the reader. Grade 2	Response: Agreed. The management commentary was updated and amended in line with EY recommendations in the year. Its content is always reviewed against the annual accounting manual on an ongoing basis and opportunities to improve the narrative disclosures considered. Responsible officer: Asst Director of Finance - FS, C, & PS Implementation date: May 2024			
2	Accounting assessments The Board did not have in place accounting papers for material amounts within their financial statements which carry significant judgement and estimation. Having such papers ensures that judgements are clearly articulated and that knowledge can be easily transferred within the Board.	Management should perform a review of ensure that for any material amounts which carry significant judgement or estimation, that an accounting paper is in place supporting management's view. Grade 1	Response: Agreed. In the event the Board was doing something which involved an element of significant justification and estimate an accounting paper will be produced. Responsible officer: Director of Finance Implementation date: May 2024			

Classification of recommendations					
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.		
No	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe		
3	Contract Management The Service Level Agreements in place with other NHS Scotland bodies did not clearly articulate the performance obligations and were not amended to reflect the changes arising as a result of the Covid-19 pandemic. This resulted in challenges in assessing the accounting treatment both due to the lack of clarity in terms and the lack of written amendment.	Management should perform a review of contracts in place to ensure the performance obligations within are clearly articulated. Where changes are made to contracts, formal contract amendments should be made. Grade 2	Response: Agreed. The SLA's were not amended during the height of the pandemic due to the pressures of work at that time, instead an amendment was agreed nationally with Scottish Government and all Health Boards to ensure no Board was at financial detriment due to the challenges of delivering core activity during the pandemic. Going forward SLA's are in the process of being reviewed and updated and the new SLAs will include additional clarification around performance obligations. Responsible officer: Director of Finance Implementation date: 31 March 2024		

Classification of recommendation

Classification of recommendations					
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.		
No	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe		
4	Financial Statement classifications Our procedures across a number of financial statement disclosures and accounts identified misclassifications. These arose partially due to terminology misinterpretations and partially due to a lack of understanding of the chart of accounts and how those impact financial statement categories.	Management should ensure that a review is performed to ensure that financial statement transactions and balances are correctly classified within the financial statements. This should include training where appropriate and a review of the use of general ledger account codes. Grade 2	Response: Agreed. The core team will be up to full establishment from 2023/24 and will allow for additional reviews in year and at the yearend. Additional training will be delivered for key finance staff during the year and clarification will be sought through TAG as appropriate. Responsible officer: Assistant Directors of Finance Implementation date: 31 March 2024		

Clas	Classification of recommendations					
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.			
No	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe			
5	Journal processing The majority of journals processed by the Board are processed by the book- keeping team. This means that we have been unable to fully utilise our data analytics tool to understand patterns of posting and has led to inefficiencies in sample testing as it is difficult to identify the true journal preparer. Within the Board, it also creates inefficiencies when individuals wish to query postings as this can not readily be obtained from the system.	Management should review the current processes in respect of journal postings and whether the book- keeping team should retain control of journal processing. Grade 3	Response: Agreed. A review of this will be carried out to establish whether it is possible to better align journal postings to the person/team raising the journal. Responsible officer: Assistant Directors of Finance Implementation date: 31 March 2024			
6	Valuation of PPE The Board's valuer adopts a beacon approach specifically designed by the District Valuer. Management should ensure that they document their review and challenge of the valuations provided by the district valuer.	The Board should ensure that evidence is available to demonstrate their review and challenge of the valuations provided by the district valuer. Grade 2	Response: Agreed. The Board already reviews and challenges valuations as required however formal recording of this process will be tightened up." Responsible officer: Head of Financial Services Implementation date: 31 March 2024			

Classification of recommendations					
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.		
No	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe		
7	Timing of additions		Response: Agreed. As		
	The Fixed Asset Manager is reliant on relevant individuals within the Board advising of when items should be capitalised. The Board has been reviewing processes to ensure items are capitalised at the correct date. As set out in Appendix F, we identified adjustments	Management should continue to review the capitalisation process to ensure that assets are capitalised from the correct date. Grade 3	the report says there has been work done already around this. Now the team is up to full establishment additional reviews will be undertaken to ensure that assets are capitalised from the correct date		
	in this area and therefore,		Responsible officer:		
	this should continue to be an area of focus.		Head of Financial Services Implementation date:		
			31 March 2024		

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Appendix G: Action plan ctd

Classification of recommendations

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.		
No	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe		
8	 PFI/Hub Contracts The Board holds 16 PFI/Hub contracts which are of varying ages. The Board did not store all the relevant supporting information in a single location which resulted in some challenges obtaining the correct models and contracts. One of the PFI contracts is scheduled to end in 2025 and therefore the Board should ensure that appropriate arrangements are in place for the contract conclusion. 	Management should ensure that a central location is used to store all PFI/Hub related information. Management should ensure that appropriate arrangements for the conclusion of the PFI contract expiring in 2025 are in place. Grade 2	Response: Agreed. The majority of the files were already held in a central location. During the audit it was confirmed that there were some gaps which were resolved and the central files have been updated accordingly. In respect of the contract expiring in 2025 a group has been set up to oversee effective management of the process and minimise potential risk to the Board. Responsible officer: Head of Capital Finance Implementation date: May 2024		



Class	Classification of recommendations					
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.			
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe			
9	Inventory controls Our procedures in respect of inventory identified a number of errors and control weaknesses in process in respect of inventory counts.	Management should perform a review of controls for inventory counts. Given the volume of counts being performed, management should consider implementing spot checks by central finance to ensure instructions are being followed.	Response: Agreed. Spot checks will be restarted in 2023/24. Responsible officer: Head of Financial Services Implementation date: 31 March 2024			
		Grade 2				
10	IT Asset Register IT assets are often bulk uploaded to finance's fixed asset register which means that it is difficult to identify any individual assets. The IT team have a separate register but the links between the two systems are unclear.	Management should review how finance and IT asset registers can be aligned to ensure that IT assets can be readily traced. Grade 3	Response: Agreed. Management will review the current arrangement with a view to tightening arrangements. Responsible officer: Head of Financial Services Implementation date: 31 March 2024			

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		Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.	Management response / Implementation timeframe	Response: Agreed. The Board already has a key area of focus on savings through the S&V programme Board and relevant sub- groups and as reported to FP&P and Board. Responsible officer: Director of Finance Implementation date: Ongoing	Response: Agreed. A couple of key senior finance posts were vacant during the year. These are now filled and the department succession plans will be updated accordingly. Responsible officer: Assistant Directors of Finance Implementation date: 31 March 2024	
ctd		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Recommendation / grading	The Board should develop and implement detailed savings plans over the medium term which are aligned to the Moving Forward Together programme. The savings plans should clearly articulate how savings will be achieved over the next 3 years and beyond. Grade 1	Management are undertaking a review of the finance team and identifying areas for improvement. This should include an assessment of the skills of the team (including the number of qualified accountants) and the succession plans in place for key roles. As part of the financial statement preparation, management should assess the roles key individuals perform to ensure that key person dependency risk is shared.	Grade 1
Appendix G: Action plan ctd	fication of recommendations	Ctade 1: Key risks and / or Significant deficiencies which are ctitical to the achievement of Sfrategic objectives. Consequently management needs to address and seek resolution urgently.	Findings and / or risk	Medium-term financial plan The Board's medium term financial plan sets out significant deficits after delivery of significant savings. While the Board continue to review and identify savings opportunities, it is important that the Board has a sustainable savings delivery plan over the term of the medium term	Finance team skills and capacity The finance team has dependency on a number of key individuals for the more complex and technical areas of accounting. Challenges have been encountered in areas such as IFRS 16 implementation and the remuneration report. This key person dependency also creates risks around succession plans and how corporate knowledge is shared.	NHS Greater Glasgow and Clyde Annual Audit Report 2022/23
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Classifie	Classification of recommendations					
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.			
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe			
13	Internal audit reporting We consider that best practice is for all internal audit reports to be presented to Audit and Risk Committees rather than just reports with significant findings.	Management, in conjunction with the Chair of the Audit and Risk Committee, should review the current reporting protocols for internal audit reports to ensure sufficient detail is provided to the committee on reports with limited findings. Grade 2	Response: Agreed. Current reporting protocols will be reviewed and any changes agreed with the Chair of ARC will be implemented. Responsible officer: Director of Finance Implementation date: 31 March 2024			
14	Accruals review Our procedures in respect of accruals identified a number of adjustments, including calculation differences, accruals relating to future expenditure and double counted accruals as set out in Appendix F.	Management should ensure that a review of the adjustments identified by audit is performed and that further quality assurance checks are implemented to identify errors in advance of the audit. Where necessary further training should be provided. Grade 2	Agreed. A review will be carried out carried out as part of the yearend checks and training is already being scheduled. Responsible officer: Assistant Director of Finance - Planning and Performance Implementation date: 13 May 2024			

Classifi	Classification of recommendations					
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.			
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe			
15	Remuneration report The remuneration report was provided to audit on 15 May, 6 days after the start of the audit fieldwork. For 2022-23, the report contained a number of complexities due to the turnover in the executive team. Following audit review, it became apparent that the necessary information from SPPA had not been obtained and this led to delays in completing the review and a potential qualification in respect of the remuneration report.	Management should ensure that an individual is allocated to the remuneration report who has sufficient time to prepare the report to a high quality and ensure that all information from third parties is obtained in a timely manner. A thorough quality review should also be performed against the guidance prior to issue to audit. Grade 2	Agreed. The remuneration report and associated guidance will be independently reviewed by a senior officer within Financial Services as part of the yearend checks. This did not occur this year due to key vacancy in the team which has now been filled. Responsible officer: Head of Financial Services Implementation date: 13 May 2024			

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Introduction

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities under auditing standards

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the going concern basis of accounting.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Read other information contained in the financial statements, the Audit & Risk Committee reporting appropriately addresses matters communicated by us to

the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and

Maintaining auditor independence.

Purpose and evaluation of materiality

- For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that. individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.
- Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.
- The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.



Audit Quality Framework / Annual Audit Quality Report

- Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.
- We support reporting on audit quality by proving additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: <u>https://www.audit-</u> scotland.gov.uk/publications/quality-ofpublic-audit-in-scotland-annual-report-202122
- EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report: https://www.ey.com/en_uk/aboutus/transparency-report

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you.

Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



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Bundle of documents for Oral hearings commencing from 13 May 2025 in relation to the Queen Elizabeth University Hospital and the Royal Hospital for Children, Glasgow

Bundle 29

NHS Greater Glasgow and Clyde Audit Reports