NHS Borders

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Board of NHS Borders and the Auditor General for Scotland
June 2024

Contents

Key messages

2023/24 annual report and accounts

1 Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

2 Key risks arising from the audit of the NHS Border's annual report and accounts in my Annual Audit Plan were presented to the Audit and Risk Committee on 25 March 2024. There are no significant matters from that work to draw to the attention of the Board.

3 Material adjustments have been made to the annual report and accounts as a result of the audit process.

Financial management and sustainability

4 NHS Borders operated within its statutory revenue resource limits. However, this was only achieved through £15.5 million of brokerage funding from the Scottish Government.

5 NHS Borders outturn position included the delivery of £8.091 million savings of which £3.739 million were recurring. However, £4.352 million were on a non-recurring basis and the recurring cost pressures puts additional pressure on the 2024/25 financial position.

6 Pressures on capital resources resulted in the temporary closure of a health facility and delayed planned business cases for replacement of GP health centres.

7 A Health and Safety inspection of the estate in respect of RAAC highlighted critical risks requiring urgent works to be undertaken.

8 NHS Border's three-year financial plan shows the Board's services are not sustainable. The projected underlying deficit budget for 2024/25 is £25.762 million. This is significantly higher than the Scottish Government's brokerage cap of £14.643 million for in 2024/2025.

9 Systematic change is required to develop a financially sustainable healthcare delivery model. The Scottish Government has not approved the Board's Financial Plan and NHS Borders needs to take action to address the current financial position.

Vision, leadership and governance

10 Effective leadership is needed to deliver the Board's transformation agenda. Progress has been too slow to date and more drive is needed to achieve change.

11 NHS Borders has appropriate governance structures in place that support scrutiny of decisions made by the Board.

12 Risk management arrangements are in place however management recognise the need to ensure these are consistently applied.

Use of resources to improve outcomes

13 NHS Borders' performance against national standards has deteriorated with most Key Performance Indicators classified as 'red'. Given the financial challenges facing the Board, it will be difficult to balance attaining financial sustainability whilst trying to improve service delivery.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of NHS Borders. The scope of the audit was set out in an Annual Audit Plan presented to the 25 March 2024 meeting of the Audit and Risk Committee. This annual audit report comprises:

- significant matters arising from an audit of NHS Borders's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021*:
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of NHS Borders and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. John Boyd has been appointed by the Auditor General as auditor of NHS Borders for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second year of the five-year appointment.

4. We would like to thank Board members, Audit and Risk Committee members, Executive Directors, and other staff, particularly those in finance, for their cooperation and assistance in this year's audit, and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. NHS Borders has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. NHS Borders is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. Our responsibilities as the independent appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2021 and supplementary guidance, and International Standards on Auditing in the UK (ISAs).

7. Weaknesses or risks identified in this report are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of NHS Borders from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers, and dates for implementation.

Auditor independence

9. The audit team comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £168,350, as set out in my Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

10. The annual audit adds value to NHS Borders 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, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Material adjustments have been made to the annual report and accounts as a result of the audit process.

Audit opinions on the annual report and accounts are unmodified

11. The Board approved the annual report and accounts for NHS Borders and its group for the year ended 31 March 2024 on 27 June 2024. The group comprises the Scottish Borders Integration Joint Board (IJB) and the endowment fund known as *The Difference*. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- expenditure and income were in accordance with applicable enactments and guidance.
- the audited part of the Remuneration and Staff Report was prepared in accordance with the Government Financial Reporting Manual.
- the Performance Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed on receipt of the unaudited annual report and accounts as £5.5 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1

Materiality values for NHS Borders and its group

Materiality level	Board	Group
Overall materiality	£5.5 million	£5.65 million
Performance materiality	£3.3 million	£3.363 million
Reporting threshold	£275,000	£280,000

Source: Audit Scotland

14. The overall materiality threshold for NHS Borders was set with reference to gross expenditure, adapted to remove the impact of the Integration Joint Board expenditure, which I judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60 per cent of overall materiality, reflecting our understanding of the entity and errors identified in the prior year audit.

16. It is our responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with the board.

Significant findings and key audit matters

17. Under ISA (UK) 260, we communicate significant findings from the audit to the board, including my view about the qualitative aspects of the board's accounting practices.

18. The Code of Audit Practice also requires all audits to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance.

19. The significant findings and key audit matters are summarised in Exhibit 2. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Health and Social Care Integration The integration joint board (IJB) activities were not included within the Board's unaudited accounts. The IJB figures are based on the unaudited accounts for the IJB and the deadline for these accounts to be audited is 30 September 2024.	**Recommendation 1** (Refer Appendix 1, action plan)
2. Scottish Government Creditor There was an error in posting a 2022/23 closing balance adjustment to the SG creditor. The creditor balance was increased by £1.855 million rather than decreased by the same amount.	The SG creditor balance has been reduced by £3.711 million, with a corresponding increase to Trade Receivables.
3. Remuneration Report – Board Members and Senior Employees The Board's unaudited accounts did not include the 2023/24 remuneration and pension disclosures for Board Members and Senior Employees.	2023/24 remuneration and pension disclosures for Board Members and Senior Employees have subsequently been provided.
4. Remuneration Report – CETV figures The current year and prior year Cash Equivalent Transfer Values (CETVs) for senior employees as	

Issue	Resolution
at 31 March were not correctly disclosed. The figures were based on calculations adjusted for inflation. Figures should not have been adjusted for inflation.	Current year CETVs have been updated by management. Prior year CETVs have been restated.

Source: Audit Scotland

Audit work responded to the risks of material misstatement identified in the annual report and accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 3 sets out the significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures 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 annual report and accounts

Audit risk	Audit Response	Conclusion
1. Risk of material misstatement due to fraud caused by 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.	Assess 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 relating to the processing of journal entries and other adjustments. Detailed testing of journal entries with a focus on significant risk areas, including year-end and post-closing entries, where we consider the risk of management override of controls to be the greatest. Evaluate significant transactions outside the normal course of business.	We assessed the controls in place over journal entry processing. We undertook detailed substantive testing of journal entries, accruals and invoices. Our journal testing included a data analytics review to identify key risk factors. We reviewed related party relationships and disclosures. We reviewed accounting estimates and transactions for appropriateness. We reviewed income and expenditure journals and transactions for indications of management bias and override of controls and did

Audit risk	Audit Response	Conclusion
	Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments.	not identify any issues in these areas. We considered the risk of fraud across our work and did not identify any fraud. **Conclusion: We did not identify any incidents of management override of controls from our work.**
2. Estimation in the valuation of land and buildings. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations. A full revaluation is commissioned every 5 years or when the Board consider there is a potential significant movement in year. The latest full revaluation was carried out as at 31 March 2023. A full revaluation is not planned for 31 March 2024.	Review the information provided to the external valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. Consider whether the valuation frequency is appropriate. Critically assess the approach NHSB has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. Challenge management's assessment of why it considers that the land and buildings not revalued in 2023/24 are not materially misstated. We will critically assess the	We reviewed the work of the valuer, and the assumptions and any data used to inform the valuation. We reviewed the controls in place at the board over the valuation of land and buildings. We reviewed reports from the valuer to confirm overall asset valuation movements. We obtained an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. Tested the reconciliation between the financial ledger and the property asset register. We sample tested individual asset valuations to confirm the suitability of the basis of valuation, the recognition of

Audit risk	Audit Response	Conclusion
It is important that the NHSB ensures the financial statements accurately reflect the value of the land and buildings.	appropriateness of any assumptions. Critically assess the adequacy of NHSB's disclosures regarding the assumptions in relation to the valuation of land and buildings.	the valuation in the accounts and underlying assumptions used. We assessed the adequacy of NHS Border's disclosures regarding the assumptions in relation to the valuation of land and buildings. We reviewed BCIS rates used by the valuer. **Conclusion: We are satisfied NHS Borders has appropriate arrangements are in place in relation to the annual revaluation process.**
3. Risk over fraud over expenditure In line with *Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. Our audit focus is on transactions around the year end where we consider greatest incentive for management to understate expenditure due to significant pressure from stakeholders to break-even, particularly around the year end expenditure.	Assess the design and implementation of controls over expenditure processing via walkthroughs, specifically those around the year end. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of expenditure transactions and other adjustments. Detailed testing of expenditure transactions with a focus on significant risk areas, including year-end and post-close-down entries. Evaluate any identified significant transactions outside the normal course of business, identified through audit testing of income and expenditure and accruals.	We assessed the design and implementation of controls over expenditure processing specifically those around the year end and did not identify any issues. We made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of expenditure transactions and other adjustments and found no issues. Detailed testing of expenditure transactions with a focus on significant risk areas, including year-end and post-close-down entries. Evaluated any identified significant transactions outside the normal course of business, identified through

Audit risk	Audit Response	Conclusion
		audit testing of income and expenditure and accruals. **Conclusion: We did not identify any areas that would impact the risks of fraud over expenditure.**

Source: Audit Scotland

Integration Joint Board disclosures

21. As highlighted in Exhibit 2, the integration joint board (IJB) activities were not included within the Board's unaudited accounts. Management have subsequently provided these figures and they have been subject to audit with the following impact on the accounts:

- 22/23 disclosures: there was a prior year error in the accounting treatment of the IJB transactions resulting in a £18.931 million decrease in operating expenses (contribution to IJB decrease of £18.810m and other operating expenses decrease of £0.121 million) and a £18.931 million decrease in operating income (services commissioned by the IJB). In addition there was a £0.474 million increase in investments in the IJB with a corresponding increase in reserves associated with the IJB.

- 23/24 disclosures: the contribution to the IJB of £179.124 million has been included in the accounts as expenditure with £173.937 million included as income for services commissioned by the IJB. The accounts include £3.423 million for investments in the IJB with a corresponding figure for reserves associated with the IJB.

There were two material and two non-material misstatements identified within the financial statements

22. In addition to the adjustments relating to the IJB there were two other corrected material misstatements. These have been included as significant findings in Exhibit 2 being the Scottish Government creditor misstatement of £3.711 million and changes to prior year and current year CETV figures for senior employees.

23. There was one corrected non-material misstatement above the reporting threshold:

- **Patient Charges**:- Income from patient charges was understated by £1.398 million as this had been incorrectly offset against IJB expenditure**.**

Management have adjusted for this with both patient charges income and IJB expenditure increased by £1.398 million.

24. There was two uncorrected non-material misstatements above the reporting threshold:

- **Accruals:** Our audit sample testing of automatic accruals from PECOS identified errors totalling £0.187 million. Applying this level of error rate to the untested accruals would give a maximum error of £0.632 million in a total population of untested accruals of £2.134 million. Management do not propose to adjust for this this. If corrected this would decrease net expenditure by a maximum of £0.632 million and increase the net assets in the statement of financial position by the same amount.

- **Prepayments:** Our part of our audit sample testing of creditors we identified an overstatement of £0.307 million in prepayments. This was in relation to a automatic accruals from PECOS. Further investigation by management of similar prepayments identified an additional error of £0.038 million. Additional audit testing did not identify any further errors. Management do not propose to adjust for this this. If corrected this would decrease net expenditure by £0.345 million and decrease net assets by the same amount.

Management do not consider these uncorrected misstatements to be material and we concur with this view. Management have agreed to review their processes around year-end automatic accruals from PECOS.

25. Following audit challenge, management advised of an error in the analysis of non-pay expenditure in the note to the financial statements. Goods and services from Other UK NHS Bodies (£7.033 million) and from Private Providers (£4.075 million) should have been shown as Other Operating Expenses. The note to the financial statements has been updated and there is no impact on total non-pay expenditure. Non-pay expenditure has been subject to audit sample testing with no issues identified.

26. The following presentational adjustments have been corrected by management:

- Assets Under Construction - an asset valued at £0.843 million became operational in July 2023 but was still showing as an Asset Under Construction as at 31 March 2024

- Family Health Services (FHS) accrual – an FHS accrual of £0.507 million was incorrectly showing as a non-FHS accrual

- Financial Instruments – the disclosure did not include financial assets at fair value through profit and loss.

There were delays in preparing the unaudited annual report and accounts

27. The audit of the accounts takes place over a condensed period in May and June. The unaudited annual report and accounts were not received in line with the agreed audit timetable on 6 May 2024 and the version presented to audit was incomplete. An updated unaudited annual report and accounts was received on 15 May 2024. The updated annual report and accounts continued to excluded the figures for the Scottish Borders Integration Joint Board. This adds additional pressure for the audit team and finance staff in concluding the audit by the statutory 30 June deadline.

Recommendation 1

The Board should review its arrangements for preparing the annual report and accounts. The capacity of finance staff to meet the reporting timetable should be part of the review.

Reasonable progress was made on addressing prior year recommendations

28. NHS Borders has made reasonable progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

NHS Borders operated within its statutory revenue resource limits. However, this was only achieved through £15.5 million of brokerage funding from the Scottish Government.

NHS Borders outturn position included the delivery of £8.091 million savings of which £3.739 million were recurring. However, £4.352 million were on a non-recurring basis and the recurring cost pressures puts additional pressure on the 2024/25 financial position.

Pressures on capital resources resulted in the temporary closure of a health facility and delayed planned business cases for replacement of GP health centres.

A Health and Safety inspection of the estate in respect of RAAC highlighted critical risks requiring urgent works to be undertaken.

NHS Borders required £15.5 million of brokerage loans at year end to operate within its revised Revenue Resource Limit (RRL)

29. 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. The requirement for boards to develop three-year financial plans was reintroduced from 2022/23.

30. As illustrated in Exhibit 4 board reported that it operated within all limits during 2023/24. However, the underspend against Core RRL was achieved as a result of the Board receiving additional non-recurring financial support of £15.5 million (brokerage loans) from the SGHSCD at year end, having projected this overspend throughout 2023/24. This was approved by SGHSCD.

Exhibit 4

Performance against resource limits in 2023/24

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	324.425	324.257	0.168
Non-core revenue resource limit	7.747	7.747	0.000
Total revenue resource limit	**332.172**	**332.004**	**0.1168**
Core capital resource limit	3.020	3.012	0.008
Non-core capital resource limit	0.000	0.000	0.000
Total capital resource limit	**3.020**	**3.012**	**0.008**
Cash requirement	**358.415**	**358.415**	**0**

Source: NHS Borders Annual Report and Accounts 2023/24

Budget processes for 2023/24 were appropriate but included a £22.5 million deficit

31. In April 2023 NHS Borders' one-year financial plan for 2023/24 estimated core revenue funding of £284.766 million from SGHSCD and net expenditure would total £317.272 million. This resulted in a financial gap of £32.506 million before accounting for savings of £10.0 million, and an in-year deficit of £22.506 million as part of the 2023/24 budget setting process.

32. The key areas of financial pressures identified in the financial plan included the underlying deficit brought forward from previous years, prescribing costs, pay terms and conditions and non-pay inflationary pressures.

33. The Board's agreed recurring savings target was £5 million, approximately 2 per cent of expenditure, with £5 million of non-recurring savings to be made.

34. 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 NHS Borders' financial position and demonstrated performance against the deficit budget throughout the year.

35. The budget monitoring reports presented to each Board meeting clearly show performance against budget for each business unit and recurring savings

targets but would benefit from providing more detail on the extent of the board's reliance on non-recurring savings. Overall, the content and format of the reports allow members to perform their scrutiny role. These financial performance reports should also be shared and discussed at Audit and Risk Committee meetings to support greater oversight and scrutiny of the financial performance in year which flows into the annual report and accounts.

£8.1 million of efficiency savings were achieved, but only £3.7 million on a recurring basis

36. £5 million recurring savings was included in the financial the plan. In total £3.7 million recurring saving so around 74 per cent of the original £5 million was achieved. There was £4.4 million of non-recurring board wide savings. This position has been offset by increased delivery of non-recurrent savings however the delivery of recurring savings remains critical to addressing the long term financial sustainability of the Board.

37. Some of these savings in year have related to vacancies not being filled and therefore these are unplanned savings and can have a consequential impact on operational performance delivery, and in Section 5 performance against targets is reported.

38. The prevalence of non-recurring savings increase financial pressures as these are one-offs and not those which will support savings in future years. Even increasing levels of recurring savings of a greater magnitude would not be sufficient to help support medium term financial.

Pressures on capital resources resulted in the temporary closure of a health facility and delayed planned business cases for replacement of GP health centres

39. During 2023/24 the Scottish Government advised all Health Boards of increasing constraints on the availability of capital resources. In late 2023, the Board made the decision to temporary close a facility (Hay Lodge House, Peebles) due to unavailability of capital resources. Further service disruption may be required in future due to the current situation regarding availability of capital investment. Other impacts include a delay to planned business cases for replacement of GP health centres.

40. This situation presents a significant challenge to NHS Borders moving forward, with an increasing backlog on maintenance and life cycle replacement and concerns on cyber resilience within the digital programme.

41. Property surveys are being undertaken during the early part of 2024/25 which will inform the Board's medium term capital plan. Current data indicates a required capital spend of £24 million to address backlog maintenance and life

cycle replacement across the estate. It is anticipated that this figure will increase following completion of survey work.

A Health and Safety inspection of the estate in respect of RAAC highlighted critical risks requiring urgent works to be undertaken

42. An initial desktop survey conducted on an NHS Scotland basis in early 2023 identified eight potential properties where Reinforced Autoclaved Aerated Concrete (RAAC) may be present within NHS Borders estate. Following further review and on site surveys conducted in September 2023 it was confirmed that RAAC is present in three locations.

43. On 7 March 2024 a Health & Safety Executive team undertook on-site inspection of these sites and reviewed previous survey information and actions in place. Following this inspection, the Board were advised that a notice of contravention letter would be issued in respect of issues identified during the inspection.

44. This letter was received on 1 May 2024 and highlights a number of concerns, including areas of weakness in existing action plans, and identified three risks highlighted as ‘red’ of which two are considered critical. These issues require urgent works to be undertaken. The Chief Executive is required to respond to the letter by 27 June 2024.

Financial controls operated satisfactorily during the year

45. From a review of the design and implementation of key controls within NHSB’s systems of internal control, and our walkthroughs of key controls to support the financial statements audit, including those relating to IT, we did not identify any internal control weaknesses which could affect NHS Borders’ ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements.

Internal audit’s annual opinion is partial assurance with improvement required

46. NHS Borders internal audit function is carried out by Grant Thornton LLP. Internal Audit have now completed their 2023/24 audit work and presented their Annual Audit Report, including the internal audit annual opinion to the 20 May 2024 Audit and Risk Committee. The overall opinion for the period 1 April 20223 to 31 March 2024 based on the scope of reviews and sample testing carried out that the opinion is of "**partial assurance with improvement required**" on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

47. Internal Audit's 2023/24 programme has identified areas of weaknesses and 'high' rated risks across four 2023/24 audits. All the recommendations associated with these high risks, and all other risks have been accepted in full by NHS Borders with plans identified to address these risks. These have been considered by the Audit and Risk Committee in year and will be monitored during 2024/25.

- Financial sustainability – overall opinion of partial assurance with improvement required: 4 high risks.
- Contract Management – overall opinion of partial assurance with improvement required: 4 high risks.
- Infection and Control – HAI Scribe – overall opinion of partial assurance with improvement required: 2 high risks.
- Use of Bank and Agency Staff – overall opinion of no assurance: 3 high risks.

48. These risks have been appropriately disclosed in the governance statement in the annual report and accounts. We are satisfied based on the areas which have high risks, and the arrangements in place around the recommendations, that these have not impacted on our audit approach or opinion on the annual report and accounts in Section 1.

49. Internal Audit confirmed that NHS Borders is actively implementing recommendations to address identified issues. However, they also reported that the timeliness and implementation rate in 2023/24 is below expectations, with 35 overdue recommendations, ten of which are rated as high risk.

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

50. In the public sector there are specific fraud risks, such as those relating to prescription fraud, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

51. NHS Borders has adequate arrangements in place to prevent and detect fraud or other irregularities. A range of established procedures are in place and have been designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect of fraud and error. These include codes of conduct for members and officers, a counter fraud policy and action plan. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current,

with the Code of Corporate Governance which contains the counter fraud policy being approved in April 24.

52. There is participation in the work of the NHS wide counter fraud services and there has been good participation to date in the National Fraud Initiative (NFI). This is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud.

53. We have concluded that NHS Borders 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.

Control weaknesses within NHS National Services Scotland resulted in the service auditor issuing qualified opinions

54. The NHS in Scotland procures several service audits each year to provide assurance on the controls operating within the shared systems.

55. NHS National Services Scotland procures service audits covering Practitioner and Counter Fraud Services (primary care payments), payroll and the national IT services contract that supports the associated systems.

56. For the Practitioner and Counter Fraud Services the Type II service audit resulted in a qualified opinion on the controls relating to dental payments as the controls associated with the objective '*Controls provide reasonable assurance that: GDS payments are made completely and accurately based on authorised claims to the valid contractors; GDS payments are made only once; and Verification is performed in accordance with Scottish Government Guidance*' did not operate effectively during the year.

57. For the national IT services contract the Type II service audit also resulted in a qualified opinion on the controls relating to access to the systems as the controls associated with the objective *'Controls provide reasonable assurance that logical access to applications, operating systems and databases is restricted to authorised individuals'* did not operate effectively during the year.

58. We have reviewed the qualifications contained within the service auditor reports and have undertaken additional substantive audit procedures including analytical review of GMS payments to conclude that the qualifications did not have an adverse impact on our audit opinion.

An unqualified opinion was provided by the NSI service auditors on the controls operating in shared systems, however an assurance gap remains

59. NHS Ayrshire & Arran procures a Type II service audit of the National Single Instance (NSI) eFinancials services. The service auditor assurance reporting in

relation to the NSI eFinancials was unqualified. The assurance gap identified last year for the IT general controls, system backup and disaster recovery remains. This continues to be a risk for NHS Scotland that needs to be addressed, but it did not impact on our 2023/24 audit.

60. In 2022/23 we reported that a gap was identified in the current service audit arrangements. The NSI service auditor report for 2023/24 again reports that: 'Atos provides national IT services to the NHS in Scotland and hosts the servers upon which the financial ledger sits. Therefore, IT general controls, controls over the server, backup of financial ledger data and disaster recovery arrangements are outside the scope of this report'. The assurance gap therefore remains for the IT general controls, system backup and disaster recovery for the NSI eFinancials system.

61. This is an area that needs to resolved for NHS Scotland and NHS Ayrshire and Arran should continue to work with NSS to ensure appropriate service auditor assurance is provided to other NHS boards on Atos services which support e-Financials.

Recommendation 2

NHS Borders should continue to engage with NHS NSS to address the assurance gap over eFinancials general IT controls.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

NHS Border's three-year financial plan shows the Board's services are not sustainable. The projected underlying deficit budget for 2024/25 is £25.762 million. This is significantly higher than the Scottish Government's brokerage cap of £14.643 million for in 2024/2025.

Systematic change is required to develop a financially sustainable healthcare delivery model. The Scottish Government has not approved the Board's Financial Plan and NHS Borders needs to take action to address the current financial position.

62. Exhibit 5 sets out the wider scope risks relating to Financial Sustainability identified in my 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5

Risks identified from my responsibility under the Code of Audit Practice

Audit risk	Audit Response	Conclusion
Financial Sustainability Prior to the Covid-19 pandemic, NHSB had received £8.3 million in brokerage loans from the Scottish Government. In 2022/23 NHSB received a further £11.7 million of brokerage loans. The latest forecast 2023/24 outturn	• Monitor the board's financial position and plans, including underlying savings plans, as reported to the board / relevant committees. • Assess the measures put in place by the board to establish grip and control of both financial and non-financial performance. • Review any assessment of the board's future financial	We monitored the financial position throughout the year through review of papers and regular communication with the finance team. The year end position identified a deficit of £22.5 million for which the Scottish Government provided brokerage. Savings in year were mainly made on a non-recurring basis.

Audit risk	Audit Response	Conclusion
position is a £20.1 million deficit. The 2023/24 financial plan identified projected recurring savings of £5 million as well as non-recurring savings of £5 million for 2023/24. Current plans identify savings of £3.6 million with a further £1.4 million remaining unidentified. NHSB has developed a three-year financial plan for 2023/24 to 2025/26, which identifies that a further £66.0 million in brokerage loans will be required. NHS Borders is working with the Scottish Government to address the sustainability challenges. However, it is unclear how the Board will return to a breakeven position or how this level of brokerage will be repaid. The Board has also experienced challenges in meeting performance targets. With the current level of financial pressures, the Board faces significant challenges in maintaining or improving service delivery in a financially sustainable way.	position (including outputs from the financial improvement programme and recovery plans) • Discussions with senior finance staff on financial position. • Assess progress made by NHS Borders in implementing sustainable transformational change to address financial targets while meeting performance targets.	The medium-term financial plan now estimates a cumulative deficit of £64.2 million over the three years 2024/25 - 2026/27. For 2024/25, forecasts a deficit position of £25.8 million is £11 million in excess of the agreed level of brokerage support from the Scottish Government. NHS Borders is working with the Scottish Government to develop the financial plan to help return to a sustainable position. NHS Borders faces difficult decisions to enable it to continue to deliver safe health provision in a financially sustainable way. **Conclusion:** NHS Borders faces significant financial challenges. With brokerage funding required for at least the next 3 financial years, systematic change is required to develop a financially sustainable operating model. Working with the Scottish Government and other key partners, including Borders Council and the Borders IJB will be critical in developing a financially sustainable model of care for the region. Appendix 1 **Recommendation x**

Source: Audit Scotland

Rising demand, operational challenges and rising costs have exacerbated the financial position of the NHS in Scotland

63. The significant cost pressures already experienced by public bodies are likely to continue. As highlighted in Audit Scotland's *NHS in Scotland 2023* https://www.audit-scotland.gov.uk/publications/nhs-in-scotland-2022 report, the financial position is concerning across the heath sector, despite the health budget increasing in real terms since 2013/14. A range of financial pressures are presenting a significant challenge for all health boards. The key messages from the report are:

- Significant service transformation is required to ensure the financial sustainability of Scotland's health service. Rising demand, operational challenges and increasing costs have added to the financial pressures on the NHS and, without reform, its longer-term affordability.

- The NHS, and its workforce, is unable to meet the growing demand for health services. Activity in secondary care has increased in the last year but it remains below pre-pandemic levels and is outpaced by growing demand. This pressure is creating operational challenges throughout the whole system and is having a direct impact on patient safety and experience.

- There are a range of strategies, plans and policies in place for the future delivery of healthcare, but no overall vision. To shift from recovery to reform, the Scottish Government needs to lead on the development of a clear national strategy for health and social care. It should include investment in preventative measures and put patients at the centre of future services. The current absence of an overall vision makes longer-term planning more difficult for NHS boards.

The 2024/25 revenue plan deficit of £25.762 million is higher than the brokerage support from the Scottish Government

64. At its meeting on 1 February 2024 the Board received an update on progress towards the development of its medium term financial plan. This set out a projected deficit before savings of £46.5 million in 2024/25, with expected savings and management actions reducing this deficit to a projected outturn position of a £32 million deficit in year.

65. This position was £15 million above the limit for brokerage support (i.e. borrowing) from Scottish Government and as such it was expected that Scottish Government would require the Board to undertake further work to identify additional financial recovery actions to address this gap.

66. The Board received feedback from Scottish Government on its initial submission which advised the Board of additional resources available in

2024/25, together with a corresponding reduction to the level of brokerage support available to the Board set at £14.8 million. In addition to these changes the Board was requested to continue to develop its financial recovery actions and to provide further detail of savings plans identified to date.

67. Following submission of the draft financial plan to Scottish Government on 29 January 2024 a workshop was held with Board members in February to consider options for financial recovery actions. An updated draft plan was reviewed by the Resources and Performance Committee at its meeting on 7 March 2024 and was submitted to Scottish Government on 15 March 2024 alongside the submission of the Board's draft Annual Delivery Plan.

68. A letter from the Scottish Government's Director of Health and Social Care Finance, Digital and Governance (DHSCFD&G) dated 4 April 2024 acknowledged the updated plan and the revised projected deficit before savings of £40.405 million in 2024-25. The financial pressure is driven by:

- a brought forward underlying deficit
- prescribing inflation
- local and national digital programmes
- required ongoing surge bed capacity.

69. The Board set a savings target of £14.643 million and other cost reduction measures to improve the financial position resulting in a revised net deficit of £25.762 million in 2024-25. As the deficit was above the brokerage cap previously communicated to the Board of £14.8 million the plan was not agreed by the Scottish Government.

70. The updated medium term financial plan submitted to the Board in April 2024 projected a financial gap before savings of £33.5 million in 2025/26 and £30.2 million in 2026/27 respectively as detailed in exhibit 6.

Exhibit 6

Projected outturn position

	2024/25			2025/26			2026/27		
	R	Non R	**Total**	R	Non R	**Total**	R	Non R	**Total**
Financial gap before savings	-41.0	0.6	-40.4	-33.6	0.1	-33.5	-31.0	0.8	-30.2

	2024/25			2025/26			2026/27		
	R	Non R	**Total**	R	Non R	**Total**	R	Non R	**Total**
Estimated savings	12.6	2.0	14.6	12.6	1.8	14.4	6.4	4.5	10.9
Forecast outturn	**-28.4**	**2.6**	**-25.8**	**-21.0**	**1.9**	**-19.1**	**-24.6**	**5.3**	**-19.3**

Source: NHS Borders Medium Term Financial Plan

71. DHSCFD&G advised the Board that it must continue to work with both finance and performance colleagues within the Scottish Government to consider options to reduce expenditure to deliver a financial outturn within the brokerage cap of £14.8 million. As a result, NHS Borders remain at level three of the NHS Scotland Support and Intervention Framework for financial reasons.

Systematic change is required to develop a financially sustainable healthcare delivery model

72. The updated medium term financial plan has highlighted a number of cost pressures which will worsen the board's existing underlying deficit. Given the Board's own assessment of the risks it faces in delivering the 2024/25 Plan, the board's cost base is not sustainable in the future.

73. As detailed in exhibit 6 above, the cumulative level of recurrent savings over 3 years is estimated at £31.4 million. The £19.3 million gap at March 2027 requires that these savings are delivered in full over the 3 year position.

74. Should further recovery actions not be identified, the Board would require Scottish Government brokerage of £64.2 million over the 3 years of the plan. The cumulative repayable brokerage (including prior year borrowing) at March 2027 is estimated at £100 million.

75. Recognising that the scale of the overall financial challenge varies across boards, NHS Boards have been categorised into three groups (Tailored Support; Enhanced Monitoring and Quarterly Engagement), to ensure Scottish Government support is directed based on need. NHS Borders remains in the 'Enhanced Monitoring' category (Level 3) which requires that they revisit their financial plans with specific support from Scottish Government in order to improve the underlying financial health of the Board.

76. A letter from the Scottish Government's DHSCFD&G dated 17 May 2024 notified all Chief Executives that Boards at level 2 or 3 of the NHS Scotland

Support and Intervention Framework have been given a brokerage cap which cannot be exceeded, or an overspend will show in the financial statements. This does not change the statutory responsibility to break even. The letter also explained that Boards must move quickly to achieve financial balance because as the year progresses, options to reduce the deficit will become more limited, therefore action is required now.

77. Planned efficiency savings are not enough to close the predicted financial gap in 2024/25 and financial recovery in the medium to longer term will require radical reform of health services.

78. Whilst we recognise that a range of improvement activity is taking place across the board, there is no clear plan to develop further measures to reduce the Board's residual financial gap towards the brokerage cap set. Recurring pressures are currently being met with a combination of recurring and non-recurring solutions with an underlying recurring over-commitment. This needs to be addressed as a matter of urgency.

79. An effective long term financial recovery plan needs to be introduced, and decisions about the way services are delivered in the short, medium and longer-term based on information about the cost, impact and quality of all available options. Detailed scenario planning should also be undertaken to provide an understanding for the Board of the effects of various reform options.

Additional financial support received from Scottish Government will need to be repaid

80. The Scottish Government has provided additional financial support, sometimes known as brokerage, over a number of years for boards predicting a financial deficit.

81. The Scottish Government previously provided £8.3 million of additional financial support to NHS Borders in 2019/20 in the form of brokerage loans which was due to be repaid in future years. The Scottish Government suspended any scheduled repayments of additional support funding during the pandemic, and NHS Borders have carried forward this loan. The additional brokerage received in 2022/23 of £11.7 million and £15.5 million in 2023/24 means that £35.5 million requires to be repaid to the Scottish Government.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Effective leadership is needed to deliver the Board's transformation agenda. Progress has been too slow to date and more drive is needed to achieve change.

NHS Borders has appropriate governance structures in place that support scrutiny of decisions made by the Board.

Risk management arrangements are in place however management recognise the need to ensure these are consistently applied.

NHS Borders has a vision and organisational objectives which link to the 2023/24 Annual Delivery Plan

82. NHS Borders has a vision supported by three organisation objectives which cover the broad themes of reducing health inequalities, providing quality sustainable services, and promoting excellence in organisation behaviour.

83. The NHS Borders annual delivery plan (ADP) for 2023/24 aligns to the Board's vision and focuses on the objective of remobilising services following the pandemic and notes the risks associated with financial challenges.

Effective leadership is needed to deliver the Board's transformation agenda. Progress has been too slow to date and more drive is needed to achieve change

84. NHS Board Chief Executives and senior teams are responsible for the delivery of critical day-to-day services as well as leading the changes to how services are accessed and delivered in their boards. This places significant

demands on senior leadership teams. Board executive and non-executive directors have some challenging decisions to make with regard to how services are best delivered in the current financial climate.

85. Whilst it is acknowledged by the senior officers and Board that the sustainable and longer-term recovery of the current £64 million forecast deficit is crucial, there is no clear plan to develop further measures to reduce the Board's residual financial gap towards the brokerage cap set.

86. The Board has already identified many of the areas most in need of improvement but initiatives remain unfinished and in some cases transformational reviews have struggled to make progress and resulted in little fundamental change.

87. Change now needs to happen quickly for NHS Borders is to address transformational challenges. More proactive and effective leadership is needed to drive the change and to promote a culture of challenge. The Board should challenge the progress being made.

Recommendation 3

The Chief Executive, Director of Finance and Board members need to ensure future delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces. Effective leadership is required to drive the changes needed and progress should be challenged by the Board.

Governance arrangements are appropriate

88. NHS Borders' governance arrangements have been set out in the Governance Statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate.

89. The Board is supported by standing committees, with the minutes of these committees presented to the Board as standard agenda items. In addition, minutes from meetings of Scottish Borders Integration Joint board (IJB) are presented to Board meetings as appropriate. Non-executive Board members are also members of selected committees, with some members also represented on the IJB Board.

90. NHS Borders Board members provide appropriate scrutiny and challenge at regular bi-monthly meetings to allow NHS Border's performance to be reviewed. There has been no significant change to governance arrangements during 2023/24.

91. Through our attendance at the Audit and Risk Committee, we concluded that committee papers were well prepared (and in sufficient time in advance of

meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the committee to exercise effective scrutiny.

92. The NHS Scotland Corporate Governance Blueprint says that health boards should annually assess the effectiveness of the corporate governance system, conducting a self-assessment to review progress, and develop an action plan, identifying any new and emerging issues or concerns.

93. The Board's Governance Framework is reviewed on an annual basis, and this is used to support the disclosures in the governance statement. A report was shared with the Audit and Risk Committee in May 2024. In addition, the Code of Corporate Governance is subject to revision every three years. A refreshed Code of Corporate Governance was presented to the Board on 4 April 2024 for approval and as a result will establish two new standing committees both sub committees of the Clinical Governance Committee.

94. Papers and minutes for Boards and Audit Committee meetings, including financial and performance information and details decisions made of are available on NHSB website.

Risk management arrangements are in place however management recognise the need to ensure these are consistently applied

95. Risk management arrangements were reviewed in 2022/23 to build risk management philosophies into a risk-based approach to decision making, and to streamline the number of meetings senior managers had to attend. A risk mitigation fund was also started in 2022/23 where non-recurring funding is available to help mitigate very high risks in the short term.

96. Quarterly reports are provided to the Audit and Risk Committee to give risk information on a more timely basis. This provides details on the strategic and operational risk registers held by the Board and allows scrutiny by members. The Quarter 4 report was considered by the Audit and Risk Committee at its meeting in May 2024. The report highlighted that whilst the framework and supporting processes are in place, the report highlighted that there is still some inconsistency with documenting risks on the organisational risk management system. Further actions are in place to ensure consistent risk management practices are in place in 2024/25.

5. Use of resources to improve outcomes

Public sector 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.

Conclusions

NHS Borders' performance against national standards has deteriorated with most Key Performance Indicators classified as 'red'. Given the financial challenges facing the Board, it will be difficult to balance attaining financial sustainability whilst trying to improve service delivery.

NHS Border's annual delivery plan has a series of actions designed to address backlogs in operational performance caused by a range of systemic issues

97. In February 2023 the Scottish Government commissioned NHS boards to submit and Annual Delivery Plan (ADP) for 2023/24 and a Medium-Term Plan covering 2023-26. The Scottish Government have developed 10 recovery drivers that span across the work of NHS Scotland for 2023/24. Concurrently, they are continuing planning work for longer term redesign/renewal and transformation of services, which seeks to position the NHS for sustainable delivery of healthcare that also improves population health and reduces health inequalities.

98. The ADP acknowledges that there is a need to redesign and transform services to address the increased waiting times and the backlog of patients awaiting diagnosis and treatments. Work in this area should be aligned to the work on delivering financial sustainability as transforming services in the longer term will help support the aims of sustainability.

NHS Borders has appropriate arrangements for performance monitoring and reporting however most measures are rated red

99. Performance reports have been considered by the Resource and Performance Committee regularly throughout 2023/24 and then publicly reported via the Board papers available on the NHS Borders website (via bi-

monthly Board papers). The information is provided in a scorecard format with information in tables, graphs and supporting narrative to explain the performance and the data.

100. In addition to just explain what the data says, for hot topics on waiting times, access to mental health services and delayed discharges there is also information on why there are challenges and what is also being done to address this issue. For the previously agreed national standards there is a scorecard overview using RAG status. Currently most of these measures are rated 'red' which means out with the standard by over 11 per cent.

Service performance against national waiting time standards is reported as being behind target

101. The 2023/24 annual report and accounts include the position at the end of March 2024 on the board's performance against its national waiting time standards. Performance is considered at each board meeting, and reporting acknowledges the challenges facing NHS Borders.

102. While these are not currently the board's only focus for performance monitoring, they provide context for the scale of the impact of the pandemic of the delivery of health services. Exhibit 7 demonstrates trends in demand and activity.

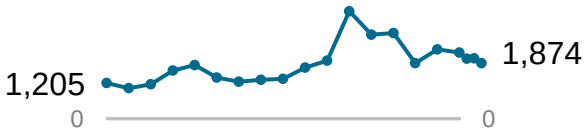
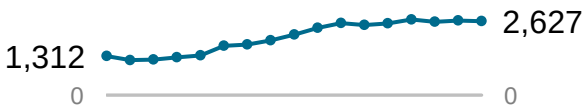
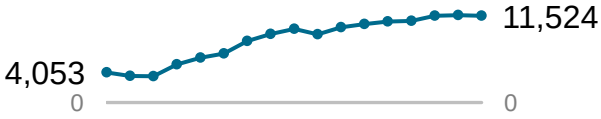
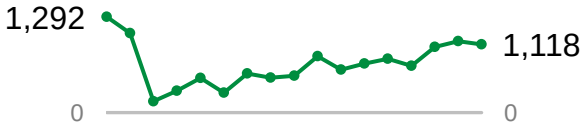
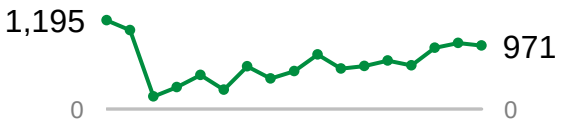
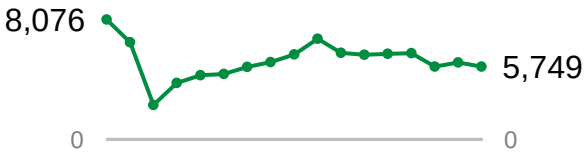
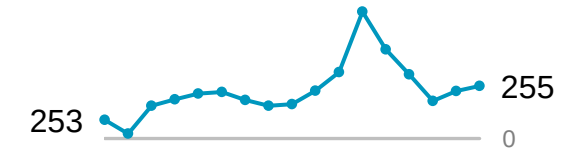
103. In terms of demand, the number of patients waiting for diagnostic tests continues to reduce over the last year, with the number of inpatient and outpatient levelling off but remaining significantly higher than pre pandemic levels. Activity levels are mixed with the number of inpatient admissions increasing whilst the number of outpatient admissions has levelled off. The length of waits data shows that whilst the number of inpatient and outpatient admissions remains significantly higher than pre pandemic levels they have reduced slightly over the last 12 months

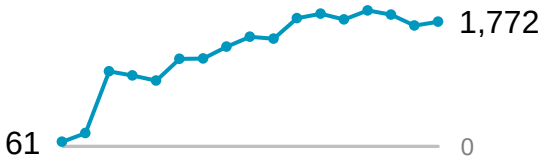
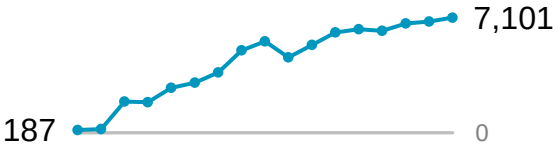
104. Exhibit 8 provides a comparison of performance against key waiting time standards against prior years. Performance against cancer targets remains high and above targets and has done so throughout the pandemic. Pressures on new outpatient waiting times, patient treatment time guarantee, and A&E attendees remain challenging and are still significantly below pre-pandemic figures. Addressing this backlog, demonstrates the need for service transformation to support patient care and long term financial sustainability.

See recommendation 3 above

Exhibit 7

NHS Board Trends in demand and activity per acute services

Demand	Quarterly trend Dec 2019 to March 2024	Change (%)
Ongoing waits for diagnostic tests		55.5%
Ongoing waits for an inpatient or day case admission		100.2%
Ongoing waits for a new outpatient appointment		184.3%
Activity	**Quarterly trend Dec 2019 to March 2024**	**Change (%)**
Number of scheduled elective operations in theatre system		-13.5%
Number of inpatient and day case admissions		-18.7%
Number of new outpatient appointments		-28.8%
Length of waits	**Quarterly trend Dec 2019 to March 2024**	**Change (%)**
Ongoing waits longer than 6 weeks for diagnostic tests		0.8%

Ongoing waits longer than 12 weeks for an inpatient or day case admission		2804.9%
Ongoing waits longer than 12 weeks for a new outpatient appointment		3697.3%

Source: Public Health Scotland

Exhibit 8

Performance against key waiting time standards

Target/standard	Performance at March 2021	Performance at March 2022	Performance at March 2023	Performance as at December 2023*
CAMHS 18 Weeks Proportion of patients that started treatment within 18 weeks of referral	47.9%	50%	33.6%	40%
Psychological therapies Waiting time within 18 weeks	86.4%	79.7%	82.1%	80.8%
Drug and Alcohol 21 days Proportion of drug and alcohol patients that started treatment within 21 days	100%	99.3%	100%	100%
18 Weeks RTT Proportion of patients that started treatment	74.1%	67.3%	71.8%	66.1%

within 18 weeks of referral				
Patient Treatment Time Guarantee (TTG) Proportion of inpatients or day case that were seen within 12 weeks	74.3%	49.5%	43.1%	50.2%
Outpatients waiting less than 12 weeks Proportion of patients on the waiting list at month end who have been waiting less than 12 months since referral at month end	74.5%	58.8%	58.7%	60.3%
A & E attendees Proportion of A & E attendees who were admitted, transferred, or discharged within 4 hours	80.4%	65.5%	62.3%	65.2%
Cancer 31 Days RTT Proportion of patients who started treatment within 31 days of decision to treat	100%	100%	93.9%	98.9%
Cancer 62 Day RTT Proportion of patients that started treatment within 62 days of referral	96%	96.8%	86.9%	86.5%

*latest data available

NHS Borders needs to work effectively with partners to meet stated outcomes and improvement objectives

105. Our outcomes for public audit note that tackling complex social and environmental challenges requires better collaboration across public bodies, with an increase in the pace and scale of reform needed across the Scottish public sector. While public bodies need to deal with immediate financial

pressures, they also need to change how services are delivered to people in a way that more effectively meets their needs.

NHS Borders has an appropriate best value framework

106. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (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.

107. NHS Borders reports an annual best value statement outlining the aims and duties for the board. It notes that best value about creating an effective organisational context from which NHS Borders can deliver its key outcomes. NHS Borders recognises that Best Value is simply a codification of good governance and good management and therefore existing governance processes should be utilised wherever possible. Best value arrangements are not held separately by the board with each governance committee required to consider delivery for best value principles in everyday business.

108. NHS Borders commissioned internal audit to carry out a review on health inequalities which was shared with the June 2023 Audit and Risk Committee. Actions to address the recommendations made, including how these would be evidenced are in the action plan currently being taken forward.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Preparation of financial statements The initial submission of the unaudited annual report and accounts was incomplete with delays in producing an updated version for audit. The updated annual report and accounts continued to excluded the figures for the Scottish Borders Integration Joint Board. **Risk:** The Board fails to support the delivery of audited financial statements within the statutory deadline.	The Board should review its arrangements for preparing the annual report and accounts, including ensuring finance staff have sufficient capacity to support the delivery of audited financial statements within the statutory deadline. Paragraph 23	**Management response:** A revised resource plan will be developed for the 2024/25 audit. NHS Borders finance team will work with Scottish Borders Council and Scottish Borders IJB finance colleagues to address issues re. availability of IJB figures. **Responsible officer** Director of Finance **Agreed date** 31 January 2025
2. Service auditor reports Unqualified opinions were provided by service auditors on the controls operating in shared systems, however an assurance gap remains over eFinancials general IT controls. Specific assurance for general IT controls provided by the IT services report relates only to payroll and practitioner services.	NHS Borders should continue to engage with NHS NSS and wider NHS Scotland to address the assurance gap over eFinancials general IT controls. Paragraph 51	**Management response:** Assurance gaps on eFinancials general IT controls will be raised for discussion within the NHS Scotland Corporate Finance Network and Technical Accounting Groups. **Responsible officer** Deputy Director of Finance **Agreed date** 30 September 2024

Issue/risk	Recommendation	Agreed management action/timing
Risk: The Board does not have adequate control assurance over key elements of its IT environment.		
3. The predicted 2024/25 financial gap is £11 million higher than the Scottish Government support cap for 2024/2025 The Board has been slow to transform services. Future financial plans must demonstrate how its services will be delivered within the funding it will receive . Planned efficiency savings are not enough to close the predicted financial gap in 2024/25 and financial recovery in the medium to longer term will require radical reform of health services. There is currently no clear plan to develop further measures to reduce the Board's residual financial gap towards the brokerage cap set. **Risk**: The Board is unable to meet its statutory financial target to deliver a balanced outturn.	The Chief Executive, Director of Finance and Board members need to ensure future delivery plans demonstrate how services will change and efficiencies will be realised to meet the growing needs of patients within the financial constraints it faces. Effective leadership is required to drive the changes needed and progress should be challenged by the Board. Paragraph 83	**Management response:** An updated financial recovery plan for 2024/25 will be developed through the Board's quarter one review, setting out actions available to address gap against brokerage target. The Board will develop its medium term financial plan and recovery plan during 2024/25 with the aim of setting out actions over the medium to longer term which will deliver a balanced financial position (i.e. breakeven). This will include assessment of the transformation and reform activities necessary to deliver this position and their impact. **Responsible officer** **Agreed date** 2024/25 plan Director of Finance 31 August 2024 Medium Term Plan Chief Executive Officer 31 March 2025

Follow-up of prior year recommendations 2022/23

Issue/risk	Recommendation and Agreed Action	Progress
1. Deferred income Sample testing identified that some funding from the Scottish Government was deferred in error. **Risk** – that the criteria for deferring income is inconsistent with the accounting standards.	During 2023/24, NHS Borders should ensure that any future funding from the Scottish Government is not classified as deferred income. Management should ensure that any income which is deferred meets the criteria for deferring income as detailed in accounting standards. **Agreed action** Individual deferred income balances held as at 31 March 2023 will be reviewed during 2023/24 to ensure all balances meet the criteria for deferred income.	Confirmed as part of 2023/24 audit work. **Complete**
2. Working papers / payables There were a number of issues whereby there was an unclear trail from the accounts to the supporting evidence and were challenging to select samples. We identified errors relating to internal recharges and accruals. We noted that low value payables and receivables balances required to be reviewed and tidied in the ledger. The review of operating procedures has been delayed to capacity issues. **Risk** – the audit trail of evidence is insufficient, and	Working papers should be revised to ensure there is a clear trail from the ledger balance to the accounts and supporting working papers. The finance and audit team as part of the planning processes for 2023/24 will share learnings from 2022/23 to support this process. **Agreed action** The Finance Team will revise working papers following detailed discussions with the Audit Team.	Confirmed working papers were of a satisfactory standard. **Complete**

Issue/risk	Recommendation and Agreed Action	Progress
the ledger can be tidied. Currently, these are leading to inefficiencies in the audit process creating additional work for both the finance and audit teams.		
3. Information Management & Technology policies and procedures IM&T policies are not currently refreshed on a timely basis. Documentation of testing activities and infrastructure architecture are not always in place. **Risk** – without clearer documentation of work done, findings and issues may not be identified on a timely basis.	IM&T policies should be refreshed on a timeous basis, with a clear schedule introduced to help manage this process. Improved documentation, including for testing and infrastructure architecture, will ensure a clearer trail of activities and actions carried out, findings identified and provide more clarity about where further work is required. **Agreed action** Progress during 2023/24 will be reported quarterly as part of Audit Follow up reports presented to the Boards Audit and Risk Committee.	Confirmed progress being reported on a quarterly basis to the Boards Audit and Risk Committee. **Complete**
4. Financial sustainability Whilst recognising the current challenging position, and the Scottish Government support, NHS Borders remain in a challenging financial position, which includes savings plans not being fully identified, and a cumulative £86.6 million brokerage being required by 2025/26. Risk – NHS Borders are unable to identify a route to financial sustainability, and	NHS Borders needs to work with Scottish Government to identify a route to financial sustainability which may include service transformation whilst delivering quality services for patients. This includes identifying how savings targets can be achieved and learning from benchmarking activity in 2022/23 to identify areas where they can learn from other NHS Scotland boards.	**See recommendation 3 above.**

Issue/risk	Recommendation and Agreed Action	Progress
face challenges in repaying brokerage.	**Agreed** This recommendation will be implemented during 2023/24, in line with action plan timelines and milestones, as agreed with the directed support from the Scottish Government and from the Board's Financial Improvement Programme.	

Follow-up of 2021/22 prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f. Accounting for IJB set aside amounts The arrangements to record the sum set aside for hospital acute services, under the control of the Borders Integration Joint Board (IJB), are not yet operating as required by legislation and statutory guidance. A figure has been agreed in 2019/20 based on the budget agreed at the start of the year between NHS Borders and the IJB, rather than actual expenditure.	**2022/23 action:** NHS Borders highlighted that work in 2022/23 was paused pending clarification of changes arising from development of National Care Service. This is still to be addressed and will carry forward into 2023/24.	**See 2023/24 recommendation 1**
b/f. Equality considerations The Board has scope to address challenges that it identified in its 2019 mainstreaming report update as follows: Complete, implement and sufficiently resource its review of the corporate	**2022/23 action:** An equalities outcome report 2023 was shared with the Board at its meeting in June 2023. However, there are further actions outstanding in relation to this work. Internal audit carried out a review of health inequalities	**Ongoing**

Issue/risk	Recommendation	Agreed management action/timing
governance arrangements for discharging its equality and diversity responsibilities. Promote awareness and understanding of equality and diversity across all parts of the organisation, including the value of staff disclosing full details of their personal characteristics in confidential staff surveys. Ensure that equality and diversity issues are addressed in sustained continuing professional development for all staff groups, including the management board. Evidence equality and diversity aspects of its stakeholder engagement and consultation activity. Support services to ensure that when feedback and complaints identify the need for improvements, useful changes are implemented Regularly publish, online, updated lists of completed equality impact assessments.	during 2022/23 and this was shared at the June 2023 Audit Committee. All recommendations were agreed by management and will be taken forward during 2023/24. The action remains open, and we will assess work on equalities after allowing time for the internal audit recommendations to be actioned.	

NHS Borders

2023/24 Annual Audit Report

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AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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