

NHS Grampian

Our Final Report to the Audit Committee
and the Board on the 2012 Audit

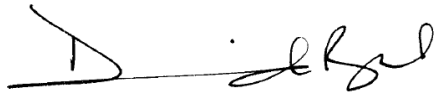
Dear Sirs

We have pleasure in setting out in this document our report to the audit committee of NHS Grampian for the year ended 31 March 2012 for discussion at the meeting scheduled for 25 June 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

A handwritten signature in black ink, appearing to read 'D. [unclear]', written over a horizontal line.

Senior Statutory Auditor

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Executive summary

Status	Description	Detail
Completion of the audit		
Our audit is largely complete	<p>The status of the audit is as expected at this stage of the timetable agreed in our audit plan</p> <p>The following are the remaining areas we are required to complete to finalise the audit:</p> <ul style="list-style-type: none"> • Our review of events since 31 March 2012; and • Receipt of signed management representation letter. 	N/A
Overall view		
Anticipated unmodified audit opinion	<p>On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.</p> <p>The matters that we have taken into account in forming our overall view are described in the following sections.</p>	N/A

Executive summary (continued)

Status	Description	Detail
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Significant audit risks		Status	
<p>We are satisfied with the treatment adopted for key audit risk areas</p>	<p>We discuss within Section 1 the results of our work in relation to the key audit risk which have been identified as being significant for the current year accounts. These include:</p> <ol style="list-style-type: none"> 1. Core expenditure resource limit; 2. Prison service transfer; 3. Management override of controls; 4. Property, plant and equipment valuation; 5. Financial systems upgrade/shared service; 6. Recording of provisions; 7. Implementation of RAM system; 8. Hub initiative; and 9. Revenue recognition. 	<p>● (Green)</p> <p>● (Green)</p> <p>● (Green)</p> <p>● (Green)</p> <p>● (Green)</p> <p>● (Green)</p> <p>● (Green)</p> <p>● (Green)</p> <p>● (Green)</p>	<p>Section 1</p>

● (Green)

Risk appropriately addressed.

●

Risk satisfactorily addressed but with unadjusted errors identified. (Amber)

●

Material unresolved matter. (Red)

Our observations on your financial statements		
<p>Disclosures agreed as in line with the FReM and the NHS Board Accounts Manual</p>	<p>We have performed a review of the financial statements against the requirements of the NHS Board Accounts Manual issued by the Scottish Government Health Directorate and the Government Financial Reporting Manual (the FReM). We have made comments in this report on the following:</p> <ul style="list-style-type: none"> • Prior year adjustments; • Disclosure of critical accounting judgements and key sources of estimation uncertainty; • Hutton disclosures on median pay; • Related party disclosure; and • Disclosure on the NHS superannuation scheme. 	<p>Section 3</p>

Executive summary (continued)

Status	Description	Detail
Our observations on the “front half” of your annual report		
<p>Disclosures agreed as in line with the FReM and the NHS Board Accounts Manual</p>	<p>We have performed a review of the financial statements against the requirements of the NHS Board Accounts Manual issued by the Scottish Government Health Directorate and the FReM. We have made comments in this report on the following:</p> <ul style="list-style-type: none"> • Annual governance statement; • Reporting of key performance indicators; • Corporate governance disclosures; and • Reporting on sustainability and equality; and • Going concern. 	<p>Section 4</p>
Financial performance and outlook		
<p>Net saving of £0.072 million against core revenue resource limit.</p>	<p>NHS Grampian budgeted for a break even position for the year to 31 March 2012. The final outturn was a surplus against the core revenue resource limit of £0.072 million and a break even position against the non core revenue resource limit, representing a net total surplus of £0.072 million.</p> <p>Capital expenditure was fully utilised in the year against a core capital resource limit of £66.595 million.</p> <p>In addition to their financial target NHS Grampian had made progress towards the achievement of most of its key performance targets. Per the most recent “At A Glance Summary” report, there are 30 individual targets, 16 of which were reported as ‘Improving and Trajectory met’, 1 which is “Improving but Trajectory not met’, 4 which were ‘Not Improving and Trajectory met” and 9 where they are ‘Not Improving and Trajectory not Met As all information is not yet available for 31 March 2012, we have highlighted in section 6 only those targets which have current data.</p> <p>A break even budget has been approved for 2012/13. The budget requires £12 million of savings to achieve this position reflecting the increased cost pressures that are expected to exceed the Scottish Government Health Department funding.</p> <p>The 2012/13 capital programme makes emphasis on the completion of the Emergency Care Centre and reducing the high risk backlog maintenance issues in clinical areas. A number of projects will also be taken forward through the Hub funding initiative. The total 2012/13 capital budget has been set at £59.948 million.</p>	<p>Section 5</p>

Executive summary (continued)

Status	Description	Detail
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Other issues		Status	Detail
<p>We have nothing to draw to the committees' attention from our enquiries into the arrangements in place for the other issues which have not been assessed as financial statement risks in our plan.</p>	<p>Other issues which have not been assessed as financial statement risks, but were considered as part of our audit in line with compliance with the Code of Audit Practice and work on Best Practice are:</p> <ol style="list-style-type: none"> 1. Compliance with outcomes based approach and quality ambitions for public sector bodies; 2. Efficiency targets; 3. Achievement of HEAT targets; 4. Sustainable workforce; 5. Patient safety; 6. Asset base not fit for purpose; 7. Partnership working; and 8. Instability of key suppliers. 	<p>●(Green) ●(Green) ●(Green) ●(Green) ●(Green) ●(Green) ●(Green) ●(Green)</p>	<p>Section 6</p>

● Issue reviewed & procedures deemed appropriate.
(Green)

● Issue reviewed and minor recommendations raised.
(Amber)

● Issue reviewed and significant recommendations raised.
(Ref)

Best value toolkit		
<p>We have highlighted recommendations to the Board's current strategic planning and resourcing processes</p>	<p>In line with our planning paper we have completed our work on the Planning and Resource Alignment Toolkit. Section 7 includes a summary of our findings.</p> <p>The key findings arising from this review is that a more strategic, integrated approach to performance management and resource allocation systems is required to ensure that the organisation is working collaboratively to achieve its agreed outcomes. To facilitate this, over the medium term, NHS Grampian should consider adopting a more advanced Outcome Planning Framework.</p>	<p>Section 7</p>

Executive summary (continued)

Status	Description	Detail
National performance reports		
<p>We have followed up the Board’s progress in response to the specific national performance reports highlighted by Audit Scotland.</p>	<p>In line with our planning paper we have completed our work on the National performance reports. Section 8 includes a summary of our findings.</p> <p>We have reviewed how NHS Grampian have responded to the national performance reports “Scotland’s public finances: addressing the challenges”, “A review of Community Health Partnerships”, “Transport for Health and Social Care” and “A review of Telehealth in Scotland”. In addition we have performed focused follow up on ‘<i>The Role of Boards</i>’ and ‘<i>Using Locum Doctors in Hospitals</i>’.</p>	<p>Section 8</p>
Risk management and internal control systems		
<p>We have not identified significant deficiencies in the financial reporting systems.</p>	<p>Our audit findings did not identify any significant deficiencies in the financial reporting systems. Section 9 sets out the risk management and control observations arising from our audit procedures. Our management letter will provide further details of the results of our work on risk management and internal control systems.</p>	<p>Section 9</p>
Independence		
<p>We are independent as stipulated by APB Ethical Standards of Auditors</p>	<p>Our reporting requirements in respect of independence matters, including fees, are covered in Section 12.</p>	<p>Section 12</p>

Executive summary (continued)

Status	Description	Detail
Identified misstatements and disclosure misstatements		
<p>All identified misstatements which are material have been corrected by management</p>	<p>Audit materiality was £7.5 million as set out in our audit plan.</p> <p>No material uncorrected misstatements have been identified.</p> <p>Details of recorded audit adjustments are included in Appendix 1. The following adjustments have been brought to your attention:</p> <ul style="list-style-type: none"> An adjustment of £0.588 million was required in order to gross up the Income and associated Expenditure in relation to Clinical Negligence Claims. The Income included in the draft accounts was based on grossing up the movement in the provision for the year, rather than the cumulative provision. This adjustment has no impact on the net assets. An adjustment of £4.420 million was required to provisions in relation to an outstanding clinical negligence case which had been omitted based on original advice from the Central Legal Office. It has been subsequently identified that this case is still live and classified as Category 3, being high risk, and therefore should be fully provided. A corresponding adjustment was also required as this is fully reimbursable from central fund held as part of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) by the Scottish Government. Two uncorrected misstatements were identified. Due to the timing of receipt of data on expenditure relating to prescription costs, a difference of £0.787 million was noted between the amount accrued and the actual expenditure occurred. A similar difference of £0.158 million was also noted in relation to dental services, however, as this expenditure receives non-discretionary funding, there is a corresponding difference in the income, resulting in an overall nil effect. 	<p>Appendix 1</p>
Significant representations		
<p>No non-standard representations</p>	<p>A copy of the representation letter to be signed on behalf of the board is included at Appendix 2. There are no non-standard representations.</p>	<p>Appendix 2</p>

Financial statements and corporate governance

1. Significant audit risks

The results of our audit work on significant audit risks are set out below:

Understanding the subjective judgements and estimates

The table below shows, on a range of acceptable outcomes from less prudent to more prudent, where management's key assumptions and valuations relating to significant estimates lie. Where appropriate we have made use of industry averages or other relevant information on "peer group" companies available from public sources.

	← Acceptable range →															
	Less prudent							More prudent								
Property, plant and equipment (PPE) valuation																Revaluations of PPE based on methodology and assumptions adopted by the District Valuer. In addition to the rolling programme of revaluations, an indexation is applied to those assets not fully revalued in the year.
Recording of provisions																Provisions based on information provided by independent third parties, including the Central Legal Office and SPPA. Largest provision in relation to clinical and medical negligence and provision applied based on level of risk – Cat 1 (0%), Cat 2(50%) and Cat 3 (100%). This approach is standardised across all NHS Scotland bodies.
Revenue recognition																Revenue recognised agrees to the final allocation per the Scottish Government.

Current year position ✓

Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Core expenditure resource limit Status ● (green)

Background

The Scottish Government Health Directorate (SGHD) sets three financial duties for all NHS Boards, on an annual basis NHS Grampian has achieved all three of its financial targets in the year, as follows:

	Limit set by SGHD £m	Actual Outturn £m	Variance (over)/under £m
Revenue Resource Limit	811.172	811.100	0.072
Capital Resource Limit	66.595	66.595	0
Cash Requirement	901.000	900.129	0.871

Deloitte response

We confirm that NHS Grampian has performed within the limits set by the SGHD and therefore in compliance with the financial targets in the year.

We have reviewed the methods applied to monitor and report the compliance with these targets and any variances to the Board. The funding allocation to NHS Grampian has been confirmed via confirmation from The Scottish Government dated 30 April 2012 and have agreed the cash draw down to the bank statements. We have concluded through the performance of our year end procedures, the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified between revenue and capital spend.

Prison service transfer Status ● (green)

Background

In accordance with the Government Financial Reporting Manual (the FReM), where there is a substantial transfer of responsibility of one part of the public sector to another, this has been accounted for using merger accounting. This has resulted in the prior year Statement of Comprehensive Net Expenditure, Summary of Revenue Resource Outturn, Balance Sheet, Cash Flow Statement, Statement of Changes in Taxpayers Equity and associated notes to be restated to include the impact of the transfer of the Prison Health Service. Prior year expenditure of £1.341 million, current assets of £0.022 million and current liabilities of £0.093 million have been recognised in the Balance Sheet, with a corresponding adjustment to the general fund.

Deloitte response

We have tested the adjustments processed by NHS Grampian to ensure that they are in line with the requirements of the FReM. All of the figures have also been corroborated to information supplied by the Scottish Prison Service and concluded that disclosures are in accordance with the FReM.

Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Management override of controls

Status ● (green)

Background

Management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent Financial Statement by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error.

Deloitte response

We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed procedures on a judgmental sample of journal entries posted in the year and confirmed the appropriateness of the journals posted.

In addition, we have also conducted a review of significant accounting estimates in order to assess the reasonableness of managements' judgements in relation to these estimates. We have not noted any transactions that appear to be outwith the course of normal business.

Property, plant and equipment (PPE) valuation

Status ● (green)

Background

NHS Grampian has property, plant and equipment with a net book value of £490.4 million of which £337.1 million relates to land or buildings which are subject to annual revaluation. In the current year the District Valuer fully revalued £86.1 million of the land and buildings, and applied an indexation to £270.9 million resulting in a net revaluation of £4.1 million of which £10.5 million was credited to the revaluation reserve and £6.4 million charged to the SOCNE. With changes in the economic environment and property markets, these assets can be subject to material changes in value and there is a risk that these changes are not appropriately recorded in the financial statements.

Deloitte response

Deloitte obtained and reviewed the external revaluation performed on Land and Buildings to ensure that the valuations have been performed by suitably qualified individuals and that valuations have been made using a reasonable basis and have been performed in a timely manner. We have selected a sample of assets and reperformed the calculation agreeing that the correct charge or gain has been taken through the correct line of the financial statements (revaluation reserve or SOCNE), based on the valuations of buildings provided by the District Valuer and the NBV per the Fixed Asset register. We have also agreed the revaluation reserve balance for the asset to the calculated surplus.

Our internal property specialists have assisted us in reviewing the assumptions and methodology applied by the District Valuer and have not identified any issues.

Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Financial systems upgrade/shared service

Status ● (green)

Background

NHS Grampian implemented a new version of the financial ledger from 1 April 2011, as part of the national shared service. There was a risk that migration issues may not be fully identified and addressed.

Deloitte response

We have tested that the opening balances transferred into the new system are in line with the 2010/11 closing position as per the audited accounts and underlying records. We also maintained close contact with the finance team throughout the upgrade with a view that any issues would be flagged up at an early date and any impact on the financial statements would be discussed and resolved. Management has confirmed that no significant issues arose which had any impact on the financial statements.

Recording of provisions

Status ● (green)

Background

At the year end NHS Grampian has provisions totalling £8.438 million (2011 - £11.936 million) relating primarily to pensions and similar obligations, clinical and medical provision and EC Carbon Emissions provision. Due to the nature of these there is a risk that the position at year end is incomplete or inadequate.

The significant reduction in the clinical and medical provision was due to the settlement of one large claim during 2011/12.

Deloitte response

Pensions and similar obligations

A copy of the pensions and injury benefit provisions were obtained and a sample of individuals was recalculated and agreed including agreeing the life expectancy back to the Office of National Statistics based on the individuals age and recalculating the discount factors. Assurance was gained over the completeness of the provision by agreeing back to confirmation from the SPPA.

Clinical and medical provision

We obtained a direct legal confirmation from the Central Legal Office (CLO) in relation to ongoing litigation cases and recalculated and agreed the year end provisions against ongoing legal cases. NHS Grampian provide for 100% of category 3 cases and 50% of category 2 cases, with no provision against category 1 cases. This approach is standardised across all NHS Scotland bodies and we have recalculated to ensure that NHS Grampian comply with this policy. In addition, all contingent liabilities have been recalculated and agreed to disclosure through Note 19 of the financial statements.

An audit adjustment of £4.420 million was required due to a case being omitted based on original advice from the CLO. It has been subsequently identified that this case is still live and high risk (Category 3), so should be fully provided.

EC Carbon Emissions

A copy of the EC Carbon Emissions were obtained and was agreed to an independent auditor report of the total co2 emissions and the unit cost was agreed to NATSOURCE EU trading scheme Market report for March 2012.

Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Implementation of RAM system		Status ● (green)
Background	During 2011/12, NHS Grampian, as part of the national shared service agenda, migrated to the National single instance of the Real Asset Management (RAM) system. As will all such financial system changes there was an audit risk that the transfer of data from the current system to the new system will not be fully and accurately transferred.	
Deloitte response	<p>We have confirmed that the opening balances transferred into the new system are in line with the 2010/11 closing position as per the audited accounts and underlying records.</p> <p>As part of the migration progress, NHS Grampian was required to change its accounting methodology to reflect the amortisation of revaluation reserves to make an annual transfer from the revaluation reserve to the general fund over the remaining useful life of the assets concerned. A prior year adjustment of £2.239 million was required to reflect the movement between the Revaluation Reserve and the General Fund. We have tested the methodology applied, by selecting a sample and confirming the Revaluation Reserve balance at 31 March 2010 as well as the assets useful life to independent District Valuers. We have concluded that the treatment in the financial statements is appropriate and in line with the FReM.</p>	
Hub initiative		Status ● (green)
Background	As part of the Hub Initiative, the Health Village project reached financial close before the end of March 2012 and therefore needs to be disclosed within the 2011/12 financial statements.	
Deloitte response	<p>We have reviewed and provided feedback on the draft Business Case which outlined the proposed accounting treatment for the project and the assessment provided by NHS Grampian's financial advisors on the application of IFRIC 12. We have reviewed the work done by the financial advisors and confirmed the assessment made, that since both the IFRIC 12 criteria apply, the project falls within the scope of the Application and is a service concession. NHS Grampian should therefore recognise and measure the newly created assets underlying the Project on balance sheet at an amount initially equal to their fair value, and matched by a corresponding long term liability. The actual accounting entries required for the financial statements will be discussed and agreed when the asset is first recognised in the 2013/14 financial statements.</p>	

Financial statements and corporate governance (continued)

1. Significant audit risks (continued)

Revenue recognition		Status ● (green)
Background	<p>Under ISA (UK and Ireland) 240 'The auditors responsibility to consider fraud in an audit if financial statements there is a rebuttable presumption that there is a risk of fraud in relation to revenue recognition'.</p> <p>For NHS Grampian we considered this risk to be around the completeness of the Core and Non Core funding from the Scottish Government given the significance of this to the organisation.</p>	
Deloitte response	<p>We have reviewed the treatment of income in the year to consider whether it is in line with IFRS guidance and the FReM. We have obtained a copy of the year end funding statement received from the Scottish Government dated 30 April 2012 which has been agreed to the amount recognised by NHS Grampian. We have also agreed the core findings as received through the bank account.</p>	

Financial statements and corporate governance (continued)

2. Liaison with internal audit

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 an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function and concluded that we could place reliance on its work.

We placed reliance on aspects of their work in a number of areas and in particular Key Financial Controls. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Our reliance upon the work of internal audit was in line with the position presented within our planning paper dated 1 December 2011.

Financial statements and corporate governance (continued)

3. Our observations on your financial statements

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

Prior Year Adjustments

Description

IAS 8 requires that where there has been a change in accounting policy the following information should be disclosed in the financial statement:

- the nature of the change;
- the reasons for the change; and
- for the current and prior periods, the amount of the adjustment for each financial statement line item affected.

Deloitte response

We have assessed the above disclosures based on our review of the accounts. A note explaining the changes required in relation to donated assets reserve, government grants reserve, the transfer of Prison Health Service and the amortisation of the revaluation reserve has been incorporated into Note 1 on accounting policies and clearly explains the impact that this has on the accounts. Disclosure notes have also been included to show the impact for each financial statement line that has been affected.

Donated Asset Reserve and Government Grants Reserve

As a result of changes in the 2011/12 FReM, NHS Scotland bodies were required to eliminate both of the above reserves, which resulted in the requirement of for a prior year adjustment to the comparative figures. We have tested the adjustments processed and confirmed that they have been made in accordance with the FReM.

Scottish Prison Service

In accordance with the FReM, where there is a substantial transfer of responsibility of one part of the public sector to another, this is accounted for user merger accounting. This required prior year adjustments to be processed to reflect the impact of the transfer of the Prison Health Service to NHS Grampian. We have tested the adjustments made by confirming the figures to information supplied by the Scottish Prison Service and confirmed that they have been made in accordance with the FReM.

Fixed Asset Accounting System

As a result of changing to a national single instance of a common fixed asset accounting system, a prior year adjustment was required in order to reflect the change in accounting methodology for amortisation of the revaluation reserve over the remaining useful life of the assets concerned. We have tested the adjustment made and confirmed to information from the District Valuer and no issues were noted.

Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Disclosure of critical accounting judgements and key sources of estimation uncertainty

Description

IAS 1 requires disclosure of:

- the critical judgements made in the process of applying accounting policies, which have the most significant effects on the amounts recognised in the financial statements; and
- major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical accounting judgements and key sources of estimation uncertainty identified by management are:

- equal pay claims;
- pension provision;
- clinical and medical negligence provision;
- fair value of property, plant and equipment; and
- leases

Deloitte response

We have assessed the above disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows against each of these areas:

Equal pay claims

We have confirmed that the disclosure is in accordance with the advice from the NHS Scotland Central Legal Office and the SGHD.

Pension provision and clinical and medical negligence provision

See **section 1** for the work done on provisions which were identified as a significant audit risk.

Fair value of property, plant and equipment

See **section 1** for the work done on the fair value of property, plant and equipment which was identified as a significant audit risk.

Leases

We have reviewed the disclosures for both operating and finance leases. We have tested a sample of finance leases to lease agreements and confirmed the accounting treatment. We have also tested a sample of operating leases and confirmed correct classification.

Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Hutton disclosures on median pay

Description

The Hutton Review of Fair Pay in the public sector concluded that “rather than complying with a cap, organisations delivering public services should track, publish and explain their pay multiples over time. The most appropriate metric for pay dispersion is the multiple of chief executive to median earnings. This will ensure public service organisations are accountable for the relationship between the pay of their executives and the wider workforce.” Following approval from the FRAB on 25 January 2012 the FReM was updated to reflect this requirement.

The following has been appropriately included within the Remuneration report in relation to this:

	2012 £000	2011 £000
Highest Earning Director	160-165	160-165
Median Salary	28	28
Ratio	5.88	5.92

Deloitte response

We have reviewed a copy of the Hutton guidance and performed the following procedures:

- Agreed a breakdown of the gross pay by individual to payroll reports and identified the highest paid director and agreed the midpoint of this into the calculation;
- Selected a sample of employees and checked salary, length of service in the year and hours employed to the payroll system and agreed that these have been adjusted to be reported as full time and annualised in line with the guidance; and
- Checked the calculation to identify the median salary and the ratio.

We are satisfied that the calculation has been performed in line with the guidance and has been appropriately disclosed.

Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Related party disclosures

Description

The FReM requires reporting of related party relationships, transactions and balances. The list of related parties for a Health Board is defined as including key management personnel of the management board, their close family members, and entities controlled or significantly influenced by these individuals.

The Board does not have processes or controls in place to ensure transactions with these individuals are identified and appropriately approved and disclosed.

Deloitte response

We have inquired of management whether there are any transactions that they are aware of with these parties, and have included a listing of Board senior management in our work on related parties.

We have not identified any undisclosed related party transactions, and consider this to be a relatively low risk disclosure for the Board.

Financial statements and corporate governance (continued)

3. Our observations on your financial statements (continued)

Disclosure on the NHS superannuation scheme

Description

NHS Grampian participates in the NHS Superannuation Scheme for Scotland which is a multi-employer defined benefit scheme.

As insufficient information is available about the assets and liabilities attributable to each employer, this scheme is accounted for as if it was a defined contribution scheme, with no pension liability shown on balance sheet and contributions payable recognised as an expense each period.

IAS 19 requires disclosure of:

- the fact that the plan is a defined benefit scheme;
- the reason why sufficient information is not available to enable the entity to account for the scheme as a defined benefit scheme; and
- to the extent that a surplus or deficit in the scheme may affect the amount of future contributions
 - any available information about that surplus or deficit;
 - the basis used to determine that surplus or deficit; and
 - the implications, if any, for the organisation.

Deloitte response

We have reviewed the disclosures within the accounts against the FReM noting that section 12.1.1 includes the NHS Superannuation Scheme as a multi employer public sector pension scheme and as such under section 12.2.5 should account for this as a defined contribution scheme.

Reference is made to the Scottish Public Pensions Agency where details of the most recent actuarial valuation can be found along with details of the shortfall that has to be met by future contributions from employing Boards.

Financial statements and corporate governance (continued)

4. Our observations on the 'front half' of your annual accounts

We are required to read the "front half" of your annual accounts to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on disclosures in a number of key areas for high quality reporting:

Annual governance statement

"All NHS organisations should aim to have all the risk management and review processes they consider necessary in place during each financial year. These processes should be reflected in the Governance Statement and where any necessary processes were not in place the statement should reflect the relevant deficiencies. Risk management should be an on-going process and NHS bodies should ensure that appropriate review and development arrangements are in place."

In the current year the Governance Statement has replaced the Statement on Internal Control for all NHS organisations requiring the Chief Executive to sign off on his responsibility for maintaining an adequate and effective system of internal control.

The Governance Statement has been prepared using the suggested proforma issued by the Scottish Government in its circular dated 3 February 2012. It reports that NHS Grampian is compliant with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable to NHS Boards.

We have reviewed the systems in place to ensure that there is sufficient evidence available to the Chief Executive to sign the Governance Statement, which includes a formal sign off by each Director and the Chair of each of the main Committees.

The statement notes that there have been no significant control weaknesses or failures to achieve the standards set out in the guidance on governance, risk management and control. This is consistent with our knowledge based on evidence collected in the course of the audit.

It should be emphasised that changes to the underlying governance requirements this year are minimal and it is anticipated that more substantial changes will be forthcoming in 2012-13.

Financial statements and corporate governance (continued)

4. Our observations on the 'front half' of your annual accounts (continued)

Key performance indicators

Under the NHS Board Accounts Manual consideration needs to be given within the Operating and Financial Review around the disclosure of both financial and non financial targets.

We have reviewed the disclosures within the Operating and Financial Review against the requirements included within the NHS Accounting Manual. We note that consideration is given around both financial performance and non financial targets in line with the guidance.

Financial targets

These centre around the limits set by the SGHD and are discussed further within [section 1](#).

Non Financial targets

Each of the key Ministerial Objectives is separately and adequately disclosed summarising the Grampian's performance against key Local Delivery Plan targets as well as other national and local targets. We have agreed these into the Local Delivery Plan and reporting of these to the Performance Governance Committee.

Financial statements and corporate governance (continued)

4. Our observations on the 'front half' of your annual account (continued)

Corporate governance disclosures

“NHS Board directors are ultimately and collectively responsible as a board for all aspects of the performance of the Board. Therefore, they need to be able to deliver focused strategic leadership and effective scrutiny of the Board’s operations.”

The Corporate Governance section of the Directors’ report includes details that the Board meet regularly to discuss the business of NHS Grampian with detail given around the key committees that the organisation has in place being:

- Clinical Governance;
- Audit;
- Staff Governance;
- Ethics;
- Patient Focus and Public Involvement; and
- Discipline.

The accounts then include specific details around the remit of each of these committees including their membership. Records are maintained of attendance by Directors at Board and Committee meetings and this information is available to the Chairman annually as part of the appraisal process.

Financial statements and corporate governance (continued)

4. Our observations on the 'front half' of your annual accounts (continued)

Sustainability and Equality

“The Scottish Government has provided guidance on the preparation of a sustainability report which, in contrast with England, is not required to be included within the OFR, though it should cross-refer to it. The accounts manual encourages boards to develop their own sustainability and environmental reporting based on good practice examples and publish them separately.”

The Sustainability and Environmental Reporting section of the Directors report includes details of NHS Grampian ten year Carbon Management Implementation Programme, which has the objective of reducing its carbon impact by 2% year on year from 2005.

The report includes CO² emission data up to and including 2011/12, which notes that the actual CO² emissions are slightly above target, primarily due to the retention and use of buildings whilst the new Emergency Care Centre at the Foresterhill Campus was under construction.

The report also summarises key environmental performance improvement delivery areas and specific core environmental performance improvements in progress.

NHS Grampian has not yet produced a separate report on Sustainability and Equality as it is awaiting further guidance from the Scottish Government on what is required.

Financial statements and corporate governance (continued)

4. Our observations on the 'front half' of your annual report (continued)

Going concern

“The purpose of the going concern assessment and disclosures should be to provide information to stakeholders about these matters and they should be designed to encourage appropriate business behaviours.”

Lord Sharman November 2011

In line with the NHS Board Accounts Manual the Operating and Financial Review includes relevant disclosures around the basis of preparation.

Best value, use of resources and performance

5. Financial performance and outlook

	2011/12			2012/13
	Recurring £m	Non-recurring £m	Total £m	Total £m
Income	928.37	23.22	951.59	974.82
Expenditure	945.99	26.26	972.25	982.63
Saving	20.24	0.49	20.73	7.81
Surplus/(deficit)	2.62	(2.55)	0.07	0

Current performance

NHS Grampian budgeted for a break even position for the year to 31 March 2012. The final outturn was an in year surplus against the core revenue resource limited of £0.23 million, which added to the brought forward surplus from the previous financial year resulted in a net surplus against revenue resource limit of £0.072 million.

Significant variations from budget included:

A number of Sectors have reported an underspend/ overspend during the year. The most significant of these are summarised below:

- **Centrally held reserves** - underspend of £5 million. These amounts represent funding held centrally pending release to the operational budgets and reported a significant underspend due to slippage on earmarked funding from the Health Department during the year but not spent in full by NHS Grampian. This is made up of a number of individual small amounts.
- **Non-clinical services** - underspend of £1.5 million. This was due to lower than expected clinical negligence claims, a higher level of VAT recoveries and underspends on advertising and recruitment budgets.
- **Acute Sector** - overspend of £7 million. This was due to an inability to meet payroll cost reduction targets in full combined with pressure on medical supplies and equipment budgets.
- **Mental Health and Learning Disabilities** - overspend of £1 million. This was mainly due to the nursing budgets being based on staff at lower grades than is actually the case.

Best value, use of resources and performance

5. Financial performance and outlook (continued)

Outlook

The 2012/13 revenue budget and capital programme were agreed by the Board on 3 April 2012. The budget outlines how over £930 million of resources will be used during 2012/13 and includes new resources of some £30 million which are offset by projected additional expenditure of £42 million. The most significant new expenditure commitments include £7.4 million associated with waiting times including vanguard/ mobile theatre and £4.1 million non-pay inflation costs including energy costs. This has resulted in NHS Grampian looking to achieve revenue savings of around £12 million in order to reach financial breakeven.

The Board has noted that such a level of cost reduction can only be achieved by significant longer term service redesign allied to short term cost reductions and improved efficiency. Effective application of the Change Fund monies will provide an opportunity to redesign services between Acute and Community Care and may provide a significant element of efficiency to assist with achievement of targets.

In terms of the capital programme, the emphasis for 2012/13 is on the completion of the Emergency Care Centre and reducing the high risk backlog maintenance issues in clinical areas. A number of projects will also be taken forward through the Hub funding initiative. The total 2012/13 capital budget has been set at £59.948 million.

Best value, use of resources and performance (continued)

6. Other issues

The results of our work on the other issues are set out below:

Compliance with outcomes based approach and quality ambitions for public sector bodies Status ● (green)

Background	NHS Grampian, as a public body, is open to scrutiny in regards to its stated targets and quality ambitions which are common to all public bodies across Scotland. It is important that NHS Grampian complies with these ambitions and targets and is able to show how it has achieved these.
Deloitte response	Through the work carried out on the BV Toolkit, we reviewed the Board's strategic planning and resourcing in the context of its overall planning framework to assess how the approach helps to deliver improved outcomes. Overall, we found that NHS Grampian applies a number of areas of best practice around planning and resource alignment. (see further comments in section 7 below).

Efficiency targets Status ● (green)

Background	Given the increasing cost pressures on all public sector entities, there has been more focus placed on efficiency measures across the NHS. NHS Grampian was set a 3% efficiency Government savings target across to invest in frontline services, and achieved this with £20.7 million of efficiency savings reported in the financial statements. This was achieved over the following local savings schemes:
	£m
	Workforce 10.8
	Estates and Facilities 3.8
	Procurement 2.7
	Clinical Productivity 1.6
	Drugs and Prescribing 1.4
	Support Services 0.4
	Total 20.7
Deloitte response	We have gained an understanding of how the savings streams were identified and monitored. Efficiency targets are identified as part of the budget setting process annually, and are developed and monitored by the Budget Steering Group. In overall terms, the target was achieved, as demonstrated and reported through the financial statements which show that the financial targets have been met. We have concluded the procedures in place to identify potential efficiency targets and reporting to those charged with governance are appropriate.

Best value, use of resources and performance (continued)

6. Other issues (continued)

Achievement of HEAT targets

Status ● (green)

Background

Performance indicators are reported on a monthly basis against Health improvement, Efficiency, Access and Treatment (HEAT) targets and reviewed by the Board with action plans developed where these are not being achieved.

For the year to 31 March 2012 NHS Grampian had made progress towards the achievement of its key performance targets reported on in 2011/12.

Summarised below are some of those where the trajectory was not met in the year.

	Target	Actual	Versus Trajectory
HEAT Targets			
Child Healthy Weight Interventions	> 410	451	↑
Child Fluoride Varnish Applications	> 3.5%	2.07% (Dec -11)	↑
Suspicion-of-cancer referrals in treatment (62 days)	> 95.0%	92.2% (quarter to Dec-11)	↑
A&E Attendance Rates	< 1,536 / 100,000	1,609/ 100,000	↓
All Cancer Diagnosis to Treatment (31 days)	> 95.0%	93.9% (quarter to Dec-11)	↓
HEAT Standards			
Sickness Absence	< 4.0%	4.2% (Mar-12)	↓

↑ Performance improving but trajectory not met

↓ Performance not improving and trajectory not met

Deloitte response

Deloitte have gained an understanding of the processes in place for monitoring and challenging the performance targets. Minutes of the Performance Governance Committee have been reviewed which confirmed that scrutiny is carried out by the Committee through the monthly performance reports and cross system performance reviews. The Board then receive regular reports from the Committee on the key points discussed.

Best value, use of resources and performance (continued)

6. Other issues (continued)

Sustainable workforce		Status ● (green)
Background	Given the financial pressures on NHS Grampian to achieve financial balance there is considerable focus on reducing staff costs through service redesign and robust vacancy management arrangements including compulsory redeployment where appropriate. There is a risk that current plans do not deliver a sustainable workforce for the future.	
Deloitte response	From our work carried out under the BV Toolkit (see section 7 below) we gained an understanding of the workforce plans in place and how these were integrated within the overall business planning and financial planning processes. Reports to the Partnership Forum and the Strategic Workforce Steering Group were also reviewed, which included statistical information on pay variances, sickness absence, staff turnover and stability rates and vacancy management. We concluded that the Board has processes in place to manage any reduction in staff numbers and workforce plans are integrated within the overall business and financial planning framework.	
Patient safety		Status ● (green)
Background	The redesign of health care services to improve the service to patients and reduce the cost base presents a risk that patient safety could be compromised due to a number of factors including financial pressures, service pressures and culture. In addition, with support from independent contractors being required to take forward strategic objectives, e.g. shifting the balance of care, there is an added risk of patient safety.	
Deloitte response	<p>We have reviewed minutes of the Clinical Governance Committee for the year to March 2012 and concluded that Patient Safety was a key point of discussion at each of the meetings held. Particular areas noted included:</p> <ul style="list-style-type: none">• the impact on patient safety of saving initiatives;• the impact on patient safety of staffing issues;• review of incidents, feedback and claims regarding patients; and• in each meeting, quality and safety was discussed and an update on the Scottish Patient Safety Programme was noted. <p>Based on the above, we can conclude that NHS Grampian has procedures in place for monitoring the impact of any service redesign on patient safety.</p>	

Best value, use of resources and performance (continued)

6. Other issues (continued)

Asset base not fit for purpose

Status ● (green)

Background

NHS Grampian has significant levels of backlog maintenance that is resulting in buildings that are dilapidated and requiring urgent maintenance. While there is a significant capital programme for investment in the asset base due to limited resources, there is a risk that not all of the assessed high risk backlog maintenance works will be delivered within the required timescales.

Deloitte response

From discussion with management and review of minutes of the Asset Management Group (AMG) we concluded that adequate processes are in place for developing and monitoring the capital plan. Throughout 2011/12, a peer steering group was formed to discuss ways of moving forward and reducing the current backlog. The steering group made recommendations to the AMG that all budget holders must follow a more aligned process when bidding for allocations and estate spend must be directed to high and very high risks.

Consistent with the Scottish Government's guidance, the bulk of the funding for 2012/13 – 2016/17 has been allocated to backlog maintenance, with 70% being used for high and very high backlog maintenance issues. It has also been proposed to link the funding for backlog maintenance to the bid to retain some capital receipts in order to progress work in Phase 2 ARI. This is currently being discussed with the Scottish Government.

Partnership working

Status ● (green)

Background

NHS Grampian needs to be able to demonstrate that it is delivering an effective service for patients and achieving value for money. Working in partnership with other public service organisations will help the organisation to meet its strategic objectives and to address these needs.

There is a risk that relationships with partners will become strained in the current economic climate at a time when there will be an even greater need to work on shared initiatives.

Deloitte response

From our work carried out under the BV Toolkit (see [section 7](#) below), we have identified a number areas of good practice in relation to partnership working with the Community Health Partnerships. We have highlighted in our separate report that NHS Grampian's input into the Single Outcome Agreements could be strengthened. This is an area that is being reviewed nationally, and like all CHPs, partnership working could be enhanced.

Best value, use of resources and performance (continued)

6. Other issues (continued)

Instability of key suppliers		Status ● (green)
Background	The current economic climate has been increasingly challenging for all industries. Due to this, a risk has been identified in relation to the stability of key suppliers.	
Deloitte response	The majority of suppliers are creditors set up by national or local agreements to ensure value for money and a large proportion of supplies are ordered from these standard suppliers as agreed through contracts through National Procurement. In the event that one supplier is not able to provide goods to NHS Grampian, the national team would be able to arrange alternative supplies rapidly. There is no over reliance on any one supplier.	

Best value, use of resources and performance (continued)

7. Best value toolkit

As presented within our planning paper the Planning and Resource Alignment toolkit was selected based on consideration of local circumstances and risks. This work has been completed and our detailed findings from this review are included in a separate report to the Audit Committee with a summary of these detailed below.

We reviewed the Board's strategic planning and resourcing processes in the context of its overall planning framework to assess how the approach helps to deliver improved outcomes.

The specific objective of our review was to make an assessment of the Board's arrangements for outcome based planning, and in particular review whether the Board:

- can demonstrate effective strategic planning and resourcing of its activities to deliver its vision;
- has a well-developed planning framework that ensures effective integration of strategy and resources; and
- if its approach helps to deliver improved outcomes.

Our report concluded that NHS Grampian applies a number of areas of best practice around planning and resource alignment. Some areas have been noted for management consideration and should be considered as more medium to long term actions.

The key findings arising from this review is that a more strategic, integrated approach to performance management and resource allocation systems is required to ensure that the organisation is working collaboratively to achieve its agreed outcomes. To facilitate this, over the medium term, NHS Grampian should consider adopting a more advanced Outcome Planning Framework.

Best value, use of resources and performance (continued)

8. National performance reports

As part of our audit we have completed our review of how NHS Grampian has responded to the following national performance reports: “Scotland’s public finances: addressing the challenges”, “A review of Community Health Partnerships”, “Transport for Health and Social Care” and “A review of Telehealth in Scotland” assessing

- The level of discussion of the report at Board Level;
- If the audited body completed a self assessment against the relevant findings;
- Details of any action plan flowing from this self assessment; and
- Form an opinion over the audited body response to the report findings.

In addition we have performed focused follow up on ‘*The Role of Boards*’ and ‘*Using locum doctors in hospital*’. This work has been completed and our detailed findings from these reviews are included in separate reports to the Audit Committee with a summary of these detailed below.

The Role of Boards

- The board scrutinises the management of NHS Grampian and holds it to account for its performance;
- The board is able to demonstrate that it is open and accessible to the public and its stakeholders. While attendance at board meetings by members of the public is generally poor, there is good attendance at the annual review meeting and board members engage with the public at public forums;
- There is an induction training programme in place for new board members;
- The board has recently reviewed the skills mix of current board members against the skills matrix nationally and is satisfied that it has sufficient skills, with the exception of specialist legal skills or knowledge.

Using locum doctors in hospitals

- NHS Grampian is committed to reducing expenditure and minimising demand for locum doctors;
- Information on locum doctors is maintained by HR. Plans are in place to develop a new database which will allow regular reports to be extracted and used for monitoring purposes;
- A Locum Doctors Recruitment Protocol is in place, which clearly sets out when locum doctors can be used and the procedures for procuring locum doctors; and
- Appropriate safeguards are in place for ensuring patient safety. New procedures have recently been implemented to require a named Clinical Mentor/ Supervisor for each locum doctor appointed, and arrangements should be made for an appraisal to occur during week 8 of the locum appointment.

Best value, use of resources and performance (continued)

9. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you on 1 December 2012. Following the completion of our audit we will provide a separate management letter but raise matters of significance to your attention within this report.

Key controls over significant risks

In **Section 1** we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below.

Risk 1 – Core expenditure resource limit	Deloitte observations	2012	
Monthly monitoring performed against SGHD financial targets.	Performance is reviewed on a monthly basis and presented to the Board against the core revenue, non core revenue and core capital resource limits to ensure that these limits are not breached.	We have reviewed the financial monitoring reports during 2011/12 confirming that this is monitored and reviewed on a regular basis.	● (green)
Risk 2 – Prison service transfer	Deloitte observations	2012	
Prior year adjustment provided in line with FReM requirements	All data was supplied by the Scottish Prison Service and was collated centrally by the Scottish Government to ensure all Boards were accounting for the transfer consistently.	We have reviewed the information provided by the Scottish Prison Service and confirmed it has been used to process the prior period adjustments.	● (green)
Risk 3 – Management override of controls	Deloitte observations	2012	
Journal entries are approved and a detailed reviewed performed of monthly accounts	Controls are in place over financial reporting and closing procedures, recording and processing of journals, segregation of duties and related party transactions prevent the management override of controls. In addition a detailed review is performed each month on the results through the financial monitoring report.	We have tested a judgmental sample of journal entries posted in the year and confirmed the appropriateness of the journals posted including approval. As noted above we have also reviewed the financial monitoring reports for 2011/12 confirming that this is monitored and reviewed on a regular basis.	● (green)

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Risk 4 – Property, plant and equipment valuation	Deloitte observations	2012	
Revaluations have been carried out by an independent, qualified individual.	A rolling programme of external valuations has been performed by the District Valuer. Journals are processed by finance staff based on information received, which is then reviewed as part of final accounts process.	We have reviewed the final accounts process and confirmed that data from District Valuer has been used.	● (green)
Risk 5 – Financial systems upgrade/shared service	Deloitte observations	2012	
Financial ledger now part of the national shared service.	A full reconciliation was performed by the finance team between the old and new systems to ensure that the opening balances were transferred correctly.	We have reviewed the reconciliation and confirmed that a full reconciliation was performed and no issued noted.	● (green)
Risk 6 – Recording of provisions	Deloitte observations	2012	
Provisions are based on information and assumptions provided by third parties.	Provisions are provided to reflect the cost of premature retirement, clinical and medical negligence and EC Carbon Emissions. These are based on information provided by external sources and reviewed by the finance team as part of the final accounts process.	We have reviewed the final accounts process and confirmed that the finance team has a clear understanding of the provisions and associated assumptions used.	● (green)
Risk 7 – Implementation of RAM system	Deloitte observations	2012	
Reconciliations between RAM and old system.	A full reconciliation was performed between the old asset register and RAM to ensure that the opening balances were transferred correctly.	We have confirmed with finance staff that a full reconciliation was performed and no issued noted.	● (green)

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Risk 8 – Hub initiative		Deloitte observations	2012
Independent financial advisors are in place.	A draft Business Case was prepared outlining the proposed accounting treatment for the project and the assessment provided by the financial advisors on the application of IFRIC 12.	We have reviewed the draft Business Case and confirmed the assessment made.	● (green)
Risk 9 – Revenue recognition		Deloitte observations	2012
The resource limit as determined by the Scottish Government is correctly recorded within the annual accounts.	Management receives notification on a monthly basis from the Scottish Government confirming the resource limit for non core revenue, core revenue and core capital. This is reviewed by the Head of Finance to ensure funding is correctly recorded.	We have obtained the year end 2012 allocation letter and agreed the amounts to the annual accounts.	● (green)

● No issues noted (green)
 ● Satisfactory – minor observations only (yellow)
 ● Requires improvement (amber)
 ● Significant improvement required (red)

Best value, use of resources and performance (continued)

9. Risk management and internal control systems (continued)

Internal control observations

In addition to the recommendations provided in relation to significant audit risks, we also identified a number of risk management and control observations, the most significant of which are detailed below.

Documented procedures		Priority – ● (amber)
Description	Documented procedures across the finance function were not up to date.	
Recommendation	Following the change to the new version of the financial ledger from 1 April 2011 and the fixed asset system, as part of the national shared service, documented procedures should be updated to reflect current working practices within the finance function.	
Management response	Procedures will be updated during 2012/13.	
	Timeframe:	30 September 2012
	Owner:	Assistant Director of Finance

Best value, use of resources and performance (continued)

10. National fraud initiative (NFI)

NFI brings together data from all bodies across the public sector to help identify and prevent frauds against the public sector including housing benefit and payroll frauds.

The Director of Finance has assumed responsibility for the NFI exercise, with responsibility for investigating the matches and resolving potential issues delegated to the Head of Service – HR Service Centre.

Management choose to focus on the recommended matches as detailed in the NFI database, but performed 100% checks on the Payroll to UK Visa matches. As at 13 June 2012, only two of the recommended matches have still to be reviewed to determine a suitable course of action and to investigate and conclude on the reason for the match. This includes reviewing payroll records, liaising with the Human Resources Department, other Health Boards and Local Authorities. Management has confirmed that this work will be completed by the end of July 2012.

The majority of the matches received related to employees working on multiple jobs. The Human Resources Department is contacted to ensure the individual has formally applied for permission to work on a secondary job and received the appropriate authorisation. Checks are also performed on individuals with long term sickness absence to ensure they are not working for other Boards or Local Authorities.

We have also confirmed that the questionnaire submitted to Audit Scotland in 2011 remains valid.

As at 31 May 2012 no frauds have been identified through the 2011/12 NFI exercise.

Best value, use of resources and performance (continued)

11. Review of Audit Committee Effectiveness

During the year, we held a workshop with members of the Audit Committee in order to assess its effectiveness and its compliance with the UK Corporate Governance Code 2010. Consideration was also given to other guidance in place, including the NHS and Scottish Government Audit Committee Handbooks. Prior to the workshop, a survey was circulated to all members for completion, which then fed into a focused discussion at the workshop.

A number of positive results were identified from the survey including:

- Written terms of reference are in place which set out the main roles and responsibilities;
- The structure, timing and workload of the committee is in line with best practice;
- The committee has a good understanding of NHS Grampian and the sector
- Annual reporting is in place, in line with best practice; and
- The committee reviews the effectiveness of the internal audit activities.

Five key themes were identified for discussion at the workshop around:

- Membership and training;
- Agenda setting;
- Support and resources;
- Roles and responsibilities; and
- Communication.

Following the workshop, an action plan is being developed by the Chair of the committee and, once finalised, will be circulated to all members of the committee. Some of the key recommendations arising under the above themes were as follows:

- NHS Grampian should ensure it has the correct skill mix of audit committee members and implement a clear development programme as part of the induction process for all non executives covering risk management and ensuring a basic level of financial knowledge.
- The organisations strategic themes should be used as a basis for setting the audit committee agenda.
- Audit committee members should review certain non key documents outwith the committee meeting to allow greater focus on the key issues at the meetings. Consideration should be given to using an e-room to facilitate this process.
- The audit committee should liaise with the staff governance committee on whether systems for raising financial concerns are working effectively.
- Consideration should be given to standardising reports, using linkage to strategic risks/ themes, to ensure that it is clearer the implications that the report findings may have for other committees. The audit committee Chair should also meet with the Chairs of the other committees on a regular basis to ensure appropriate inter committee dialogue of issues.

Other

12. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below.

Confirmation	
We are independent	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
Non-audit services	
No non audit services provided in the year	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy. There was no non audit services fees charged in relation thereto by Deloitte in the period from 1 April 2011 to 31 March 2012.
Fees	
Audit fee agreed within indicative range	The audit fee for the year has been agreed at £299,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. This fee incorporates the contribution to Audit Scotland covering your organisation's allocation of the costs of, among other things: <ul style="list-style-type: none">• the programme of national performance audits in the NHS as set out in the recently published forward programme;• functions that support the local audit process (e.g. technical support and co-ordination of the National Fraud Initiative);• Audit Scotland's other support costs; and• auditors' travel and subsistence expenses.
Relationships	
There are no business or personal relationships to report	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Other (continued)

13. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of audit practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you within our audit plan dated 1 December 2012 and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Board of Directors, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Deloitte LLP

Chartered Accountants
Glasgow

25 June 2012

Appendices

1 - Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report:

		Credit/ (charge) to current year SOCNE £'000	Increase/ (decrease) in taxpayers' equity £'000	Increase/ (decrease) in prior year taxpayers' equity £'000
Timing of expenditure relating to prescription costs	[1]	787	787	Nil
Timing of expenditure and associated income relating to dental costs	[2]	Nil	Nil	
Total		<u>787</u>	<u>787</u>	<u>Nil</u>

We will obtain written representations from the Board Members confirming that after considering all uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

[1] Due to the timing of receipt of data on expenditure relating to prescription costs, a difference of £0.787 million was noted between the amount accrued and the actual expenditure incurred.

[2] Similar to [1] above, due to the timing of receipt of data on expenditure relating to dental services, a difference of £0.158 million was noted between the amount accrued and the actual expenditure incurred. As this expenditure receives non-discretionary funding, there is a corresponding difference in the income, therefore the net effect is nil.

As stated in our audit plan, we only report to you uncorrected misstatements that are not clearly trivial which includes greater than £150,000.

Appendices (continued)

1 - Audit adjustments (continued)

Corrected misstatements

We report all individual identified recorded audit adjustments in excess of £80,000 adjusted by management in the table below.

		Credit/ (charge) to current year SOCNE £'000	Increase/ (decrease) in taxpayers' equity £'000	Increase/ (decrease) in prior year taxpayers' equity £'000
Gross up of compensation for clinical negligence claim	[1]	Nil	Nil	Nil
Provision and associated receivable for clinical negligence claim	[2]	Nil	Nil	Nil
Total		Nil	Nil	Nil

[1] An adjustment of £0.588 million was required to gross up the compensation due for clinical negligence claims. This has no impact on the current year SOCNE as it is purely a movement between Income and Expenditure.

[2] An adjustment of £4.420 million was required to provisions in relation to an outstanding clinical negligence case which had been omitted based on original advice from the Central Legal Office. It has been subsequently identified that this case is still live and therefore should be fully provided. A corresponding adjustment to receivables was also required as this is fully reimbursable from central fund held as part of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) by the Scottish Government.

Disclosure misstatements

We have not identified any disclosure misstatements from our work performed.

Appendices (continued)

2 - Representation letter

Deloitte LLP
Lomond House
9 George Square
Glasgow
G2 1QQ

Our Ref: NHSG/2012

Date: at time of signing

Dear Sirs

This representation letter is provided in connection with your audit of the annual financial statements (“the financial statements”) of NHS Grampian for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of NHS Grampian as of 31 March 2012 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with the directions given by the Auditor General for Scotland (‘the Auditor General’) in accordance with Section 21 of the Public Finance and Accountability (Scotland) Act 2000. We are aware that it is an offence to mislead a Board auditor.

As Accounting Officer and on behalf of the board of directors, I confirm to the best of my knowledge and belief, the following representations.

Financial statements

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with the directions given by Scottish Ministers and the National Health Service (Scotland) Act 1978 which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Board or cease operating as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Board's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We have considered the valuation of the Board's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation in the current year
9. With respect to the revaluation of properties in accordance with the FReM:
 - a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;
 - b) the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
 - c) the disclosures are complete and appropriate.
 - d) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.
10. We confirm that we consider that depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.

Information provided

11. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
12. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
13. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

14. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
15. *We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects NHS Grampian and involves:*
 - (i). management;
 - (ii). employees who have significant roles in internal control; or
 - (iii). others where the fraud could have a material effect on the financial statements.
16. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
17. We are not aware of any actual or possible instances of non-compliance with laws and regulations.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
19. No claims in connection with litigation have been or are expected to be received.
20. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
21. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
22. I confirm that I have appropriately discharged my responsibility for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as Accounting Officer, and on behalf of the Board of Directors

Appendices (continued)

3 – Additional resources available to you

Additional information on current and future technical developments

IASPlus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes:

- Summaries of all IASB standards and interpretations;
- Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;
- Comparisons of IFRSs and various local GAAPs;
- Updates on national accounting standards development in around 80 countries and regions throughout the world; and
- Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest.

The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>.

Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.

Our range also includes quarterly iGAAP newsletters providing a roundup of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

Stay tuned online: Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via www.deloitte.co.uk/audit.

Audit podcasts

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, www.deloitte.co.uk/audit. Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

Appendices (continued)

3 – Additional resources available to you (continued)

Additional information on current and future technical developments

Deloitte UK Centre of Health Solutions

The Deloitte Centre for Health Solutions generates insights and thought leadership based on the key trends, challenges and opportunities within the healthcare and life sciences industry. Working closely with other centres in the Deloitte network, including the US centre in Washington, our team of researchers develop ideas, innovations and insights that encourage collaboration across the health value chain, connecting the public and private sectors; health providers and purchasers and consumers and suppliers.

'Primary Care: Today and Tomorrow' was published in May 2012 and upcoming studies include:

- Healthcare for the Homeless;
- The Economic Case for Improving Diagnostics in the UK;
- Value Based Pricing;
- Measuring the Return from (Pharma) Innovation – is R&D earning its investment;
- Commissioning; and
- End of Life Care.

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