

Final Report to the Audit
Committee and the Auditor
General on the 2012/13
Audit



18 June 2013

Deloitte*Audit*: Promoting excellence in the boardroom

Board of Directors
NHS Grampian
Summerfield House
2 Eday Road
Aberdeen
AB15 6RE

Auditor General for Scotland
Audit Scotland
110 George Street
Edinburgh
EH2 4LH

18 June 2013

Dear Sirs

We have pleasure in setting out in this document our final report to the Audit Committee of NHS Grampian for the year ended 31 March 2013, for discussion at the meeting scheduled for 25 June 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

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. The clinical and medical negligence provision has increased substantially in the year to £15.702 million from £8.438 million based on advice from the Central Legal Office. This is offset by a corresponding debtor increase in respect of the recoveries due from the Scottish Government through the CNORIS scheme.
- 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.

Yours faithfully



Jim Boyle
Senior Statutory Auditor

Contents

1. The big picture

2. Significant audit risks

3. Comments on your Annual Report and Financial Statements

4. Best value, use of resources and performance

5. Risk management and internal control

6. Responsibility statement

Appendix 1: Audit adjustments and disclosure misstatements

Appendix 2: Independence and fees

Appendix 3: Fraud considerations

Appendix 4: Representation letter

Appendix 5: Additional resources available to you

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

The big picture

The big picture

Our audit is substantially complete and no significant issues have arisen

- Our work is **substantially complete** and we remain on timetable to issue an unmodified opinion on 25 June 2013.
- We have identified no **material issues** and have **no material adjustments**.
- We believe the front half of your annual report is consistent with the financial statements and is in line with the requirements of the FReM.
- Our work has highlighted **no disclosure deficiencies**.
- The financial reporting control environment remains robust and we **have no material control matters** to draw to your attention. Our controls findings have been included within Section 5 of this report.
- There have been no changes to the audit plan set out in the planning audit committee document.
- We did not identify any instances of fraud that have not been reported to you. See appendix 3 for details of fraud investigations.
- A copy of the representation letter to be signed on behalf of the board has been included at Appendix 4 of this report.
- 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 (See Appendix 2 for further detail).
- We placed reliance on the work of the internal auditors in relation to key financial controls, with specific reliance on payroll controls, as well as their work on the annual governance statement.

Significant audit risks

Summary of procedures on key audit risks:

Significant audit risk	Status
Core expenditure resource limits	No issues arising
Pensions and clinical & medical negligence provisions	No issues arising
Property, plant and equipment valuation	No issues arising
Management override of controls	Minor misstatement or recommendation identified
HubCo Project	No issues arising
New e-Payroll System	No issues arising
Revenue recognition – completeness of income	No issues arising

Key

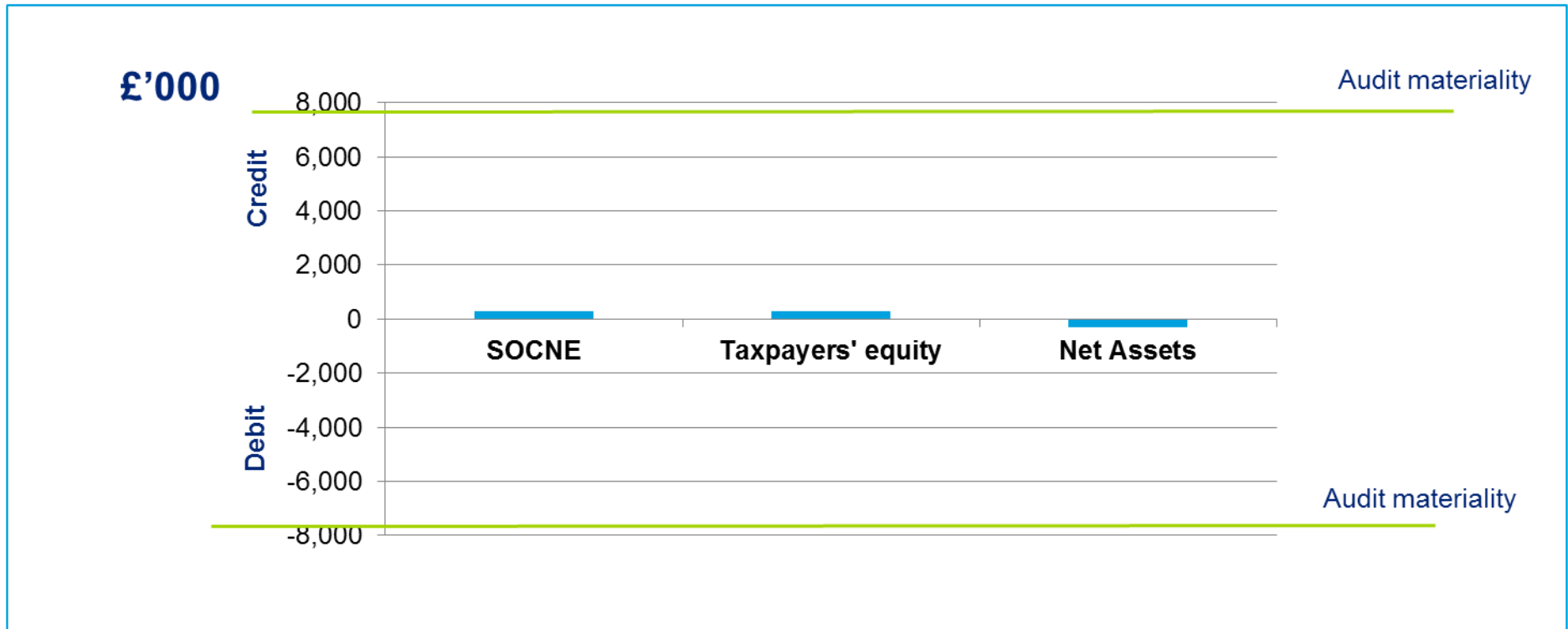
No issues arising

Minor misstatement or recommendation identified

Material misstatement or recommendation identified

Materiality and uncorrected misstatements

Uncorrected misstatements are significantly below audit materiality



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.

The only significant uncorrected audit adjustments affecting the SOCNE is in relation to prescription costs. Due to the timing of receipt of data on expenditure relating to these costs, a difference of £0.297 million was noted between the amount accrued and the actual expenditure incurred.

Significant audit risks

Summary of significant audit risks

Understanding the subjective judgements and estimates

The risk table below illustrates the key audit risks focused upon where Deloitte identified areas which involved the highest level of judgement and impact on the financial statements.

Acceptable range															
Pensions and clinical & medical negligence provisions	Less prudent							✓						More prudent	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.
Property, plant and equipment 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.
Revenue recognition – completeness of income								✓							Revenue recognised agrees to the final allocation per the Scottish Government.

Significant audit risks

Core expenditure resource limits

Background

- Key financial duty for NHS Grampian to comply with Revenue Resource Limit, Capital Resource Limit and cash requirement.
- Key focus for management and our audit testing.
- We must provide an opinion on regularity – that expenditure and receipts were incurred or applied in line with guidance.

	Resource Limit £000s	Expenditure £000s	Underspend £000s
Revenue resource limit – core	800,449	800,368	81
Revenue resource limit – non core	36,700	36,700	-
Capital resource limit	54,350	54,350	-
Cash requirement	904,000	903,619	381

Deloitte response

- We have reviewed the methods applied to monitor and report the compliance with these targets and any variances to the Board. A projected overspend against the revenue resource limit has been reported during the year, reducing as the year progressed and savings plans became effective. The small underspend was achieved through close monitoring by the Budget Steering Group.
- £1.281 million has been transferred from the capital to revenue resource limit during the year, in recognition that the capital funding allocation was being used to fund the backlog maintenance works, which by their nature will have revenue costs. This was agreed with the Scottish Government.
- The funding allocation to NHS Grampian has been confirmed via confirmation from the Scottish Government dated 29 April 2013 and we 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.
- We confirm that NHS Grampian has performed within the limits set by the Scottish Government Health and Social Care Department (SGHSCD) and therefore in compliance with the financial targets in the year.

Significant audit risks (continued)

Pensions and clinical & medical negligence provisions

Background

- Significant judgement and complexity around these calculations.
- Risk that the provisions are incorrect and incomplete.

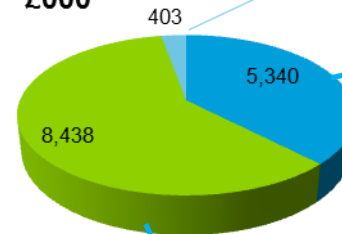
Pensions

- A copy of the pensions and injury benefit provisions were obtained and a sample of individuals were tested to assess whether the correct details, including age and monthly benefit were included in the calculation.
- We agreed the life expectancy 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 of the monthly payments.

Clinical and medical negligence

- We obtained a direct legal confirmation from the Central Legal Office (CLO) in relation to on-going litigation cases and agreed the year end provisions against on-going legal cases.
- We agreed a sample of movements in the year to supporting evidence., and challenged the CLO on significant increases.
- 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.
- All contingent liabilities have been recalculated and agreed to disclosure through Note 19 of the financial statements.

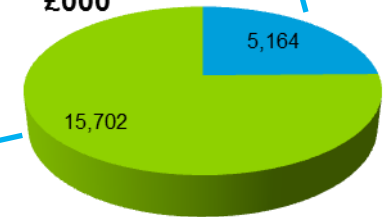
2011/12 Provisions
£000



Provision of £403,000 in 2011/12 for EC Carbon Emissions no longer required in 2012/13 as Scheme ended on 31 December 2012.

Provision for pensions and similar obligations in line with prior year.

2012/13 Provisions
£000



Provision for clinical and medical negligence claims have almost doubled in comparison with prior year due to one case which the CLO has estimated will cost £7 million to settle.

The initial estimate of £1 million in 2011/12 was made before any health assessments or reports were available. Medical reports have since been provided to allow the CLO to give a more accurate assessment.

As NHS Grampian is only liable for the first £25,000 for each negligence case, a corresponding debtor of £14.775 million is disclosed within Receivables for amounts due from the Scottish Government.

Significant audit risks (continued)

Property, plant and equipment valuation

Background

- Changes to the property market and economic environment can drive significant movements in value.
- IFRS requires assessment with significant regularity to ensure no significant divergence between carrying value and fair value of assets.

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 re-performed 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

Net Book Value of Property, plant & equipment at 31 March 2013:
£506.086 million

Net downward revaluation:

- £6.746 million
- £5.281 million to the Revaluation Reserve
- £1.327 million to the SOCNE

£4.449 million of this movement is indexation adjustment for all assets not re-valued in the year.

Impairment charged to SOCNE:

£9.012 million
This is in relation to capitalised costs in the year which have been re-valued downwards based on valuation of the projects.

£7.267 million of this impairment relates to the Emergency Care Centre, which became operational in 2012/13.



Significant audit risks (continued)

We have no significant findings in respect of the below risks

Management override of controls

- No significant issues noted around journal entries and other adjustments made in the preparation of the financial statements. Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.
- From our journal testing, we noted a high number of journals being processed to correct errors previously processed. While all journals tested were found to be valid and correct, management should review to identify the cause, to ensure that procedures are developed to prevent similar errors being processed in the future.

Hub-co project

- We reviewed the work done by the Board's financial advisers 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.
- The newly created assets underlying the Project will be recognised 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 assets are first recognised in the 2013/14 financial statements.

New e-Payroll system

- Our review of the work and testing performed by NHS Grampian to ensure that the transfer of data was complete and accurate identified no issues.
- We selected an independent sample of employees from the old system and traced to new system, with no exceptions noted.
- Reliance has been placed on NHS Tayside's Internal Audit report, being the host of the new e-payroll system, which confirmed no issues with the upload of standing data masterfiles.

Revenue recognition - Completeness of income

- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the FReM.
- We have obtained a copy of the year-end funding statement received from the Scottish Government dated 29 April 2013 which has been agreed to the amount recognised by NHS Grampian.
- We have also agreed the core funding as received through the bank account.

Comments on your Annual Report and Financial Statements

Comments on the front half of your Annual Report

The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Directors’ report

“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”.

Assurance framework

Membership and remit of each committee disclosed in the Directors’ Report

Going Concern

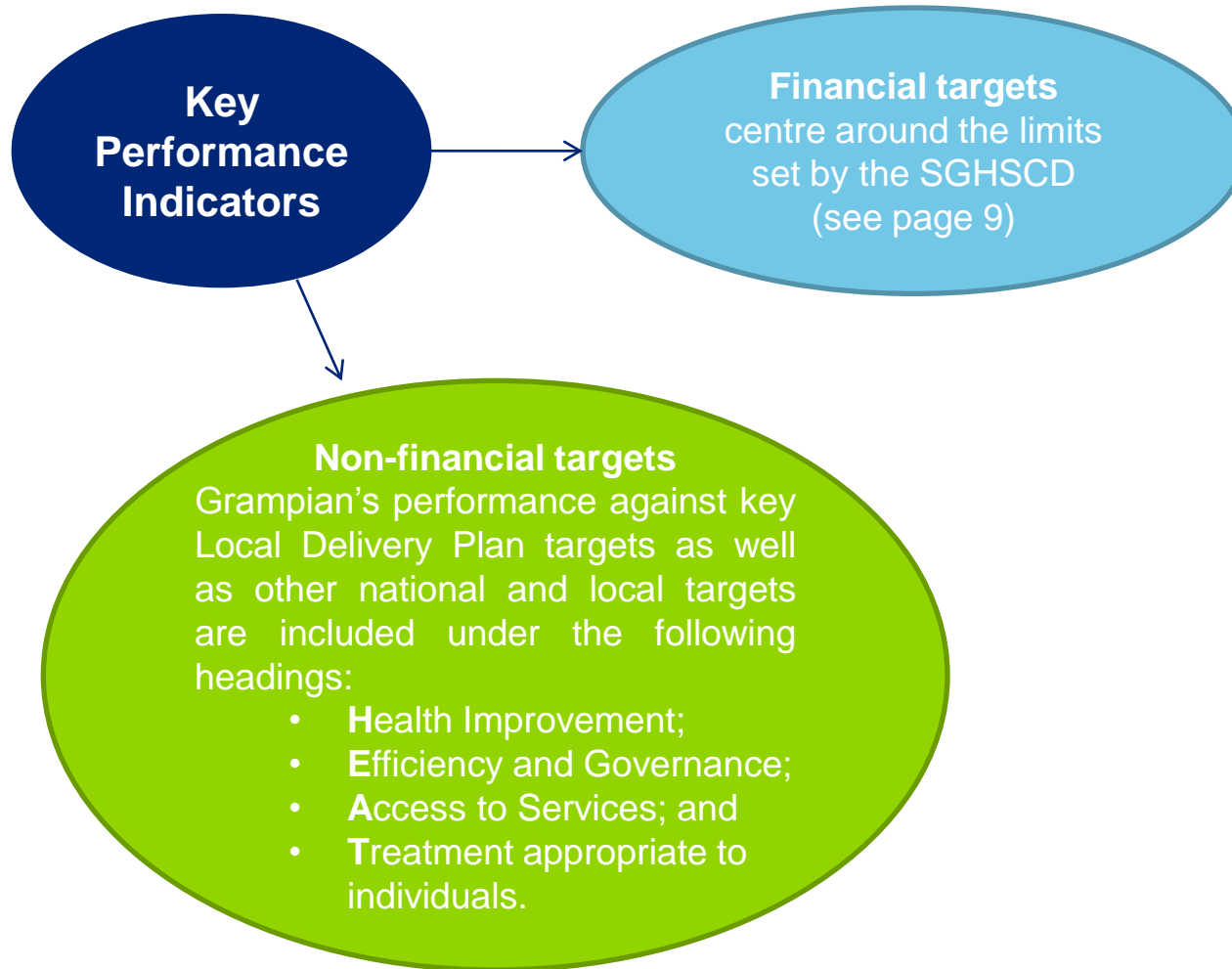
In line with the NHS Board Accounts Manual the Directors’ Report includes relevant disclosures around the basis of preparation.

Board and committees meet regularly throughout the year. Frequency of the five key sub-committees disclosed in the Directors’ Report.

Disclosures made are in accordance with the FReM and Accounts Manual

Comments on the front half of your Annual Report (Continued)

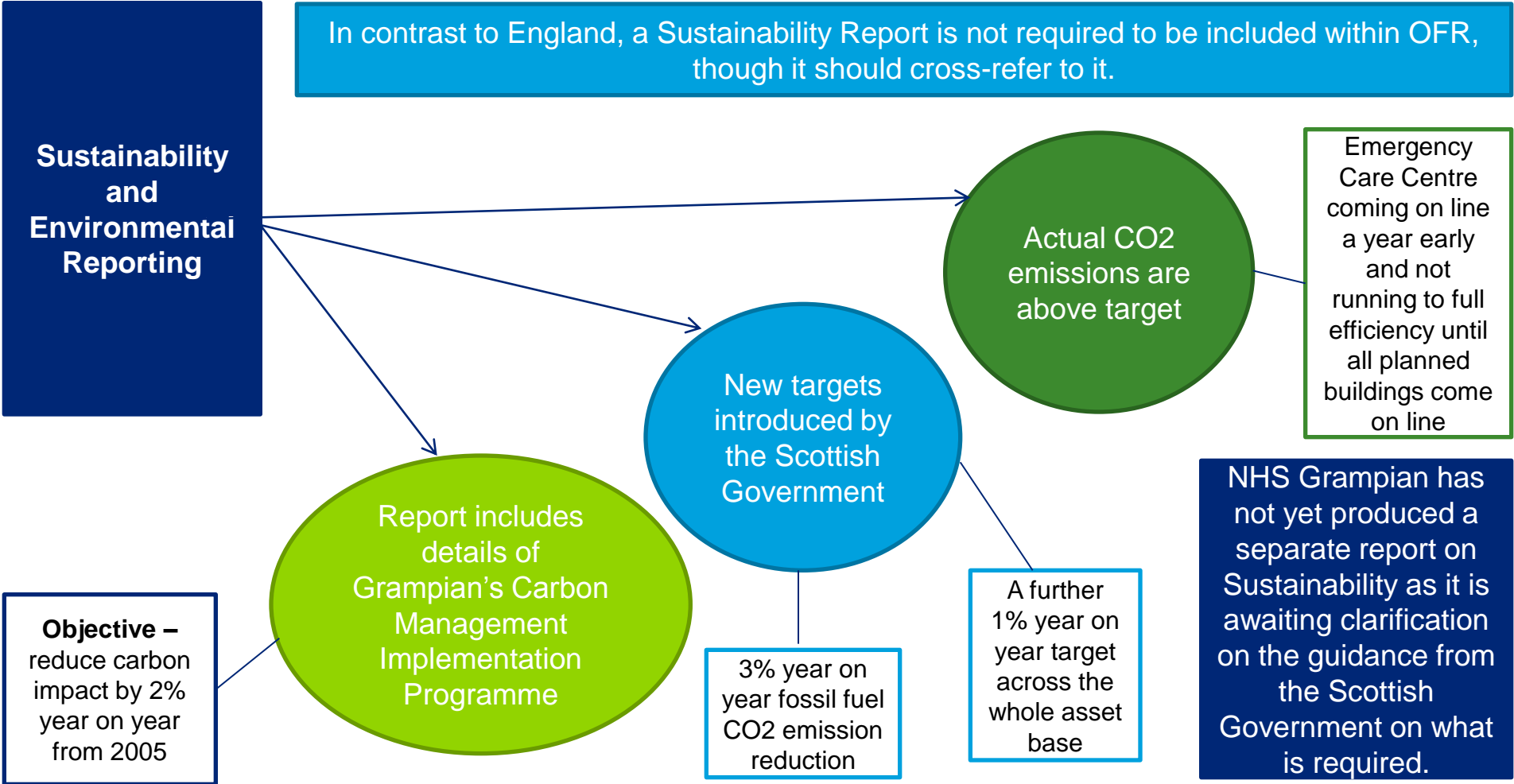
Operating and financial review



We have reviewed the disclosures against the requirements and note that consideration is given around both financial performance and non financial targets in line with the guidance.

Comments on the front half of your Annual Report (Continued)

Operating and financial review (continued)



Comments on the front half of your Annual Report (Continued)

Remuneration report

The remuneration report has been prepared in accordance with the requirements of the FReM, disclosing the remuneration and pension benefits of Executive and Non-Executive Members of the Board.

Hutton disclosures on median pay:	2011/12	2012/13
Highest earning Director's Total Remuneration (£'000)	155-160	160-165
Median Total Remuneration (£)	27,626	27,329
Ratio (top to median pay)	5.70	5.87

We have reviewed 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.

Comments on the front half of your Annual Report (Continued)

Governance statement

“An important priority is to ensure that governance statements laid out the organisation’s approach to governance in the context of its business model. Getting this right matters as much as improving the quality of specific explanations”
FRC February 2012

The Governance statement has been prepared using the suggested pro-forma issued by the Scottish Government in its circular dated 10 December 2012.

It reports that NHS Grampian is compliant with the elements 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 and from the work of internal audit during the year.

Significant observations on your Financial Statements

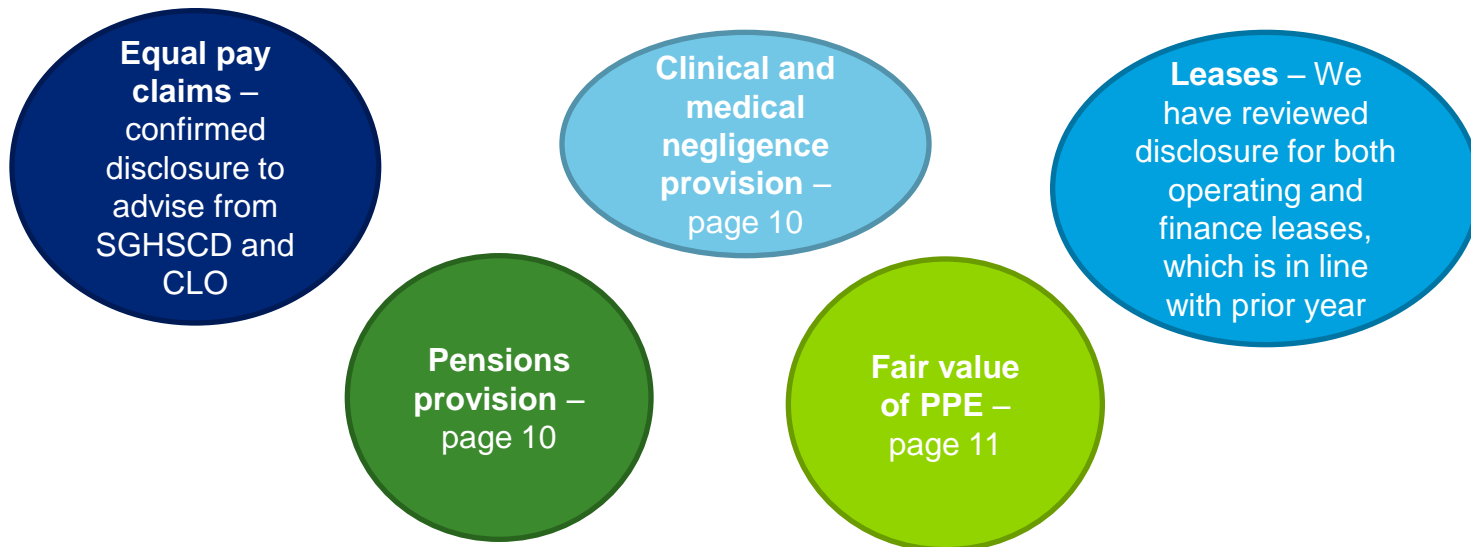
Critical accounting judgements and key sources of estimation uncertainty

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.

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 (PPE); and
- leases

We have assessed the 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:



Significant observations on your Financial Statements (Continued)

Related party disclosure

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.

Related Party Transactions disclosed by NHS Grampian

NHS Grampian Endowment Fund

Balance
£40.202
million

Expenditure
£0.303
million

Income
£1.315
million

Peterhead Medical Group

Expenditure
£2.058
million

Payable
£0.146
million

We have inquired of management whether there are any transactions that they are aware of with these parties defined by the FReM, 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.

Significant observations on your Financial Statements (Continued)

NHS Superannuation scheme

NHS Grampian participates in the NHS Superannuation Scheme for Scotland, which is a multi-employer scheme, where the share of the assets and liabilities applicable to each employer is not identified. This is therefore accounted for on a defined contribution basis as permitted by IAS 19.

Following national guidance from the Scottish Government, Note 22 of the accounts 'Pension Costs' reflects a Scotland-wide net liability arising from the most recent actuarial valuation for the year 31 March 2004. A more recent actuarial valuation was carried out at 31 March 2008, however, the publication of this valuation was placed on hold by HM Treasury pending the outcome of public sector pension reforms.

Periodic actuarial valuations are key to determining the adequacy of employer and employee contributions to the Scheme.

Given that the Scheme ought to be subject to a full valuation every five years, a more up to date valuation would have been expected to have been reflected in the 2012/13 accounts.

Normal employer contributions paid in 2012/13: £45.354 million.

We have reviewed the disclosures within the accounts against the FReM noting that it includes the NHS Superannuation Scheme as a multi employer public sector pension scheme and as such should be accounted 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.

Best value, use of resources and
performance

Best value, use of resources and performance

Financial performance and outlook

NHS Grampian budgeted a breakeven position for the year to 31 March 2013. The final out-turn was a surplus against the core revenue resource limit of £9,000 which added to the brought forward surplus from the previous year resulted in a net surplus against revenue resource limit of £81,000.

	2012/13 Recurring £'000	2012/13 Non-recurring £'000	2012/13 Total £'000	2013/14 Total £'000
Income	960,890	31,710	992,600	992,660
Expenditure	968,650	34,300	1,002,950	1,007,580
Savings	10,431	0	10,431	14,920
Surplus/ (deficit)	2,671	(2,590)	81	Nil

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

- **Acute Sector** – overspend by £9.7 million. Pay budgets have overspent by £3.1 million mainly due to operating at a higher than budgeted staffing levels on a number of staffing groups. Non-pay budgets have overspent by £6.2 million due to cost reduction targets allocated against medical supplies and equipment in 2012/13 not being achieved.
- **FHS Expenditure – GP Prescribing** – underspend by £3.9 million due to price reduction for a number of high volume drugs moving to generic versions during the year and other nationally negotiated price reductions.
- **Committed Reserves** – underspend by £6.9 million, reflecting a significant degree of slippage on earmarked funding allocated by the Scottish Government during the year but not spent in full. This is particularly the case for the Change Fund where slippage during the year was £4.95 million.

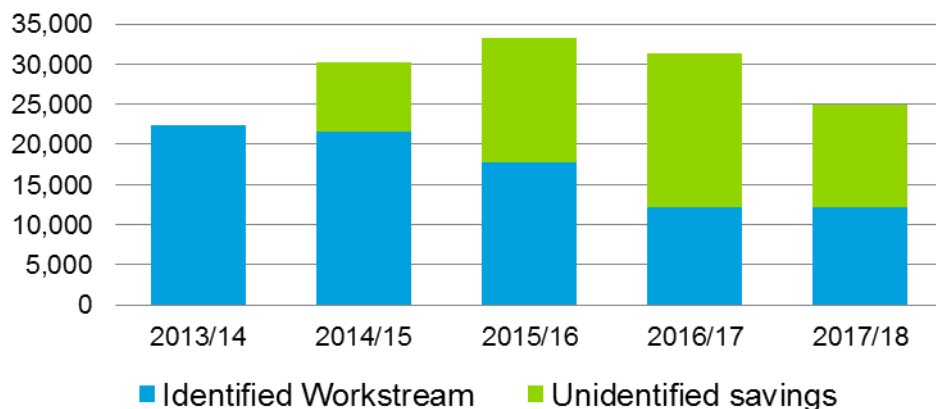
Best value, use of resources and performance (continued)

Financial performance and outlook (continued)

The 2013/14 revenue budget and capital programme were agreed by the Board on 2 April 2013. The budget outlines how NHS Grampian will meet its key revenue targets over the next 5 years, and in doing so, it must achieve recurring cost reductions in each of these years, which the Board recognises will be challenging. The value of saving is shown below.

The base funding uplift, plus the additional move to NRAC parity amounts to a £30.2 million funding increase in comparison with 2012/13. This is offset by additional cost commitments of £40.5 million.

Efficiency Savings required (£'000)



2013/14 Cost Commitments	£'000
Pay and non-pay uplifts	10,300
Waiting time	6,500
Cost pressure funding	7,500
Infrastructure Costs	2,900
GP and Hospital Drugs	2,600
Service developments	2,000
Change Fund (c/fwd 12/13)	2,000
Other	6,700
Total	40,500

The total 2013/14 capital budget has been set at £47.952 million. A carry forward of £3.4 million was agreed in 2012/13 as part of the re-phasing of capital expenditure in relation to backlog maintenance, to re-allocate this income to 2013/14. A further £2.8 million from 2015/16 and £2.6 million from 2016/17 has also been brought forward to 2013/14 - 2014/15 in order to fit with the phased spending plans to address the backlog maintenance.

Best value, use of resources and performance (continued)

Other issues work – Health and social care integration

Background

- Adult Health and Social Care Bill due to be introduced during 2013, with implementation from 1 April 2015.
- Aim is to create a system of health and social care in which resources are best used regardless of whether they are 'health' or 'social care' resources.
- Move to an emphasis on outcomes.



We attended a joint meeting between NHS Grampian and Aberdeenshire Council in April 2013 where the progress with the national working groups and the work being done locally was discussed. Regular meetings are held between the Chief Executives of both organisations which demonstrates the commitment this is being given.

Meetings have also taken place with Moray and Aberdeen City, with each authority progressing at different pace.

Work currently being progressed in Grampian:

- Three separate timetables being developed due to different stages with each local authority.
- Running a shadow year from 1 April 2014 is under consideration at Aberdeenshire.
- Project plan and option appraisal of both models being developed for approval by the Board and Council Members.
- Discussions held around the local make up of the Health and Social Care Partnership committee.

What can be learnt from successful integration elsewhere?

Leeds Community Healthcare NHS Trust

Part of a citywide agreement between health and social care partners to work together to improve the quality of health care and increase innovation and productivity.

The key drivers to the success were:

- Improving the patient experience being central to any activity;
- A focus on relationships, not structures;
- Intensive leadership development from the outset; and
- A strong vision / direction to go beyond the 'minimum'.

Kaiser Permanente

The largest not for profit health plan in the United States, renowned for its integration of primary, secondary and hospital care.

Kaiser Permanente have identified the key enablers to its success as being:

- **Working as a team**, including the optimisation of handoffs between providers
- Using an **end to end approach**
- A **Strong IT system** to gather and share information, track outcomes and systematically identify innovations.
- **Strong relationships with patients**

Best value, use of resources and performance (continued)

Other issues work – Planning and resource alignment

Background

- Our 2011/12 BV Toolkit review assessed the Board's arrangement for outcome based planning.
- We found that NHS Grampian applies a number of areas of best practice around planning and resource alignment.
- Some areas were noted for management consideration, which should be considered as more medium to long term actions.

Action Plans have been developed, are being implemented and continue to evolve to underpin the Healthfit 2020.

Zero based budgeting approach was considered for nursing and medical supply costs in 2013/14.

We have followed up the agreed actions from our 2011/12 report and noted that progress is being made in relation to each of the recommendations made.

National costing group looking to introduce a single costing methodology which would provide the potential for enhanced financial data that could be linked to outcomes.

All services are being encouraged to develop their own 2020 visions.

Relationships with local authorities and third sector being developed as part of H&SC integration agenda.

Best value, use of resources and performance (continued)

Best Value Toolkit

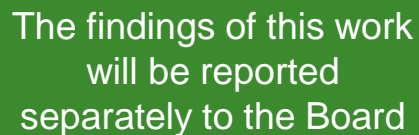
As part of the external audit work, we are required to use the Best Value toolkits developed by Audit Scotland. Following discussion with management, it was agreed that the toolkit on efficiency would be the most relevant for NHS Grampian for 2012/13, given the increased efficiency challenges faced by the Board.

The audit work has focussed on the community health services across each of the Community Health Partnerships (CHPs). Given the planned integration of health and social care services, it is important to get community services in good working order in isolation first before embarking on an integration process as otherwise the CHP runs the risk of building in inefficient working and skill mix into its integrated teams. We have tailored our review and questioning to specifically focus on the work of NHS Grampian's community health services.

The findings of this work will be reported separately to the Board.



Draft report has been issued to management for discussion



The findings of this work will be reported separately to the Board



Final report will be presented to the Audit Committee in September 2013

Best value, use of resources and performance (continued)

National Performance Reports

We have performed a focused follow up on 'Scotland's public finances: addressing the challenges'.

This work has been completed and our detailed findings from this review were included in a separate report to the Audit Committee with a summary of these detailed herein:

The Board is responding positively to the challenges of public sector budget constraints and a significant amount of work has been undertaken in order to achieve financial sustainability. Some areas have been highlighted for management consideration in order to enhance the current process.



Best value, use of resources and performance (continued)

National Fraud Initiative

We are required to monitor boards' participation in the NFI exercise during 2012/13.

Head of Service (HR Service Centre) continues to take lead role on payroll matches

Assistant Director of finance taking lead for creditors matches, which are new to 2012/13 process

	Total matches	Total recommended to follow-up	Total processed at 31 May 2013
Payroll	1,461	116	5
Creditors	2,423	240	0
Total	3,974	356	5

As at 31 May 2013, no frauds have been identified in either the 2010/11 or 2012/13 exercises

All data was submitted to the NFI in accordance with the deadlines of September 2012, and management now has plans in place to address all of the recommended matches over the period from June to December 2013, with adequate resources being allocated to this work.

Risk management and internal control

Risk management and internal control observations




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:

Significant Risk	Control	★
Core expenditure resource limits	<p>Monthly monitoring is performed against SGHSCD financial targets.</p> <p>We have reviewed the financial monitoring reports during 2012/13 confirming that this is monitored and reviewed on a regular basis. A projected overspend against the revenue resource limit has been reported during the year, reducing as the year progressed and savings plans became effective. The small underspend was achieved through close monitoring by the Budget Steering Group.</p>	★
Pensions and clinical & medical negligence provisions	<p>Provisions are based on information provided by external sources and reviewed by the finance team as part of the final accounts process.</p> <p>We have reviewed the final accounts process and confirmed that the finance team has a clear understanding of the provisions and the associated assumptions used and have obtained and used the information provided by a third party.</p>	★
Property, plant and equipment valuation	<p>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 the final accounts process.</p> <p>We have reviewed the final accounts process and confirmed that the data from the District Valuer has been used.</p>	★

Risk management and internal control observations (continued)

Key controls over significant risks

Significant Risk	Control	
Management override of controls	<p>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 reports.</p> <p>We have tested a sample of journal entries posted in the year and confirmed the appropriateness of the journals posted including approval. We have also reviewed the financial monitoring reports for 2012/13 confirming that they are monitored and reviewed on a regular basis.</p>	
hubCo project	<p>A draft Business Case was prepared outlining the proposed accounting treatment for the project and an assessment provided by the financial advisors on the application of IFRIC12.</p> <p>We have reviewed the draft Business Case and confirmed the assessment made.</p>	

Risk management and internal control observations (continued)

Key controls over significant risks

Significant Risk	Control	★
<p>New e-Payroll System</p>	<p>An operational plan was put in place to ensure a smooth transition to e-Payroll. This included stages for communication, data cleansing, training and use of best practice. A reconciliation was performed to ensure that all data migrated correctly.</p> <p>We have confirmed that a reconciliation was performed by the Payroll Manager in November 2012, with no exceptions noted.</p>	★
<p>Revenue recognition – completeness of income</p>	<p>The resource limit as determined by the Scottish Government is reviewed by the Head of finance to ensure funding is correctly recorded.</p> <p>We have confirmed that the year end 2013 allocation letter has been reflected in the annual accounts.</p>	★



No issues noted



Satisfactory – minor observations noted



Requires improvement



Significant improvement required

Risk management and internal control observations (continued)

Internal Control observations

We have identified a number of risk management and control observations, which are detailed below.

Description	Deloitte recommendation	Management response
<p>Untaken Annual Leave Accrual A deduction of 20% is taken from the total headcount to take account of the likely number of staff who have no untaken annual leave and whose untaken annual leave has not been reported to the finance department via the annual returns. There is insufficient evidence to support this level of deduction.</p>	<p>The methodology applied to calculate the untaken annual leave accrual should be reviewed to identify a more robust method of identifying all untaken annual leave at 31 March.</p>	<p>All managers are requested to provide a return at the end of each financial year detailing untaken leave. The accrual is based on an extrapolation of the returns received (circa 15% in 2012/13). ". All managers will be reminded of the importance of completing their return at year end 2013/14. A larger number of returns will provide greater assurance over the methodology and value of the accrual. It should be recognised however, that managers who have staff in their area with no leave due are unlikely to see the value of filling in a "nil" return and if less than the full number of returns are received it will still be necessary to make an adjustment to the extrapolated value to reflect "nil" returns.</p>

No significant internal control deficiencies identified.

Risk management and internal control observations

Internal Control observations (continued)

Description	Deloitte recommendation	Management response
<p>Journal entries A total of 271 journal entries processed in 2012/13 were noted with “correction” in the description, indicating errors were processed previously.</p>	<p>Journals processed to correct errors should be reviewed to allow the cause of such errors to be identified and control around processing to prevent such errors be amended accordingly.</p>	<p>Continuous improvement and learning is embedded in our operational processes and the fact errors are being identified and corrected suggests that our review processes are working effectively. The Finance department best practice group, led by our technical accountant will review current arrangements for classification of journal types and consider the development of regular reporting arrangements highlighting anomalies or potential areas of concern e.g. repeated corrections for the same issue in the same area and any regular corrections processed between the income and expenditure and balance sheet accounts (as oppose to simple realignment of costs within the income and expenditure account ranges to support meaningful management reporting).</p>

No significant internal control deficiencies identified.

Risk management and internal control observations

Internal Control observations (continued)

Description	Deloitte recommendation	Management response
<p>Payroll Notification of Termination Forms – we noted that some staff inform payroll of terminations by e-mail rather than completing the required form. There is a risk that all the required information is not supplied to payroll to process the termination.</p>	<p>All staff should be reminded to use the standard “Notification of Termination” form.</p>	<p>Existing procedures allow for the use of email notification of changes to payroll standing data as long as it comes from a trusted source i.e. a personal NHS email account and the individual authorising the change has the appropriate level of authority. This procedure is in line with national policy and accepted good practice. In addition, for all terminations the payroll officer actioning the change, as part of their standing procedures, works to an employee leaving checklist. This specifies minimum data required both before and after the payroll is processed. Any missing data is followed up directly with the originator. There are further checks undertaken as part of the monthly payroll log process to ensure that the data set is complete for all leavers. Accordingly management consider that adequate internal controls exist to ensure that the full data set is available to support terminations processed through the payroll system.</p>

No significant internal control deficiencies identified.

Risk management and internal control observations

Internal Control observations (continued)

Description	Deloitte recommendation	Management response
<p>Fraud policy – The fraud policy does not reflect current practice within NHS Grampian.</p>	<p>The fraud policy should be updated to reflect current working practices, with reference also made to the NFI exercise.</p>	<p>A revised Fraud Policy harmonised with the Voicing concerns policy will be available for consultation during Summer 2013. Although the formal policy requires some work a dedicated intranet site with up to date guidance is now available and accessible by all staff. Also the Standing financial Instructions were amended in June 2012 to incorporate revised guidance on fraud and other matters of business conduct.</p>

No significant internal control deficiencies identified.

Internal audit and control

Our reliance on the work of internal was in line with plan

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit. The results of this were:

For those areas where a significant risk was identified we performed most of the work ourselves, with reliance placed on the work of NHS Tayside's internal auditors

Specific reliance was placed in the work on payroll except where the work addressed a significant audit risk

No issues were identified with the work performed by internal audit

We have also placed reliance on the work of the service auditors for those controls managed by NHS National Services Scotland, with no issues identified.

Responsibility statement

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 26 March 2013 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
Edinburgh

18 June 2013

Appendix 1: Audit adjustments and disclosure misstatements

Audit adjustments : Unadjusted misstatements

Unadjusted 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]	297	297	Nil
Total		297	297	Nil

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 £0.297 million was noted between the amount accrued and the actual expenditure incurred.

As stated in our audit plan, we only report to you uncorrected misstatements that are not clearly trivial which includes greater than £79,000.

Appendix 2: Independence and fees

Independence and fees

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:

Independence confirmation	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.
----------------------------------	---

Fees	The audit fee for the year has been agreed at £265,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.
-------------	---

Non-audit services	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 were no non audit services fees charged in relation to Deloitte LLP in the period from 1 April 2012 to 31 March 2013.

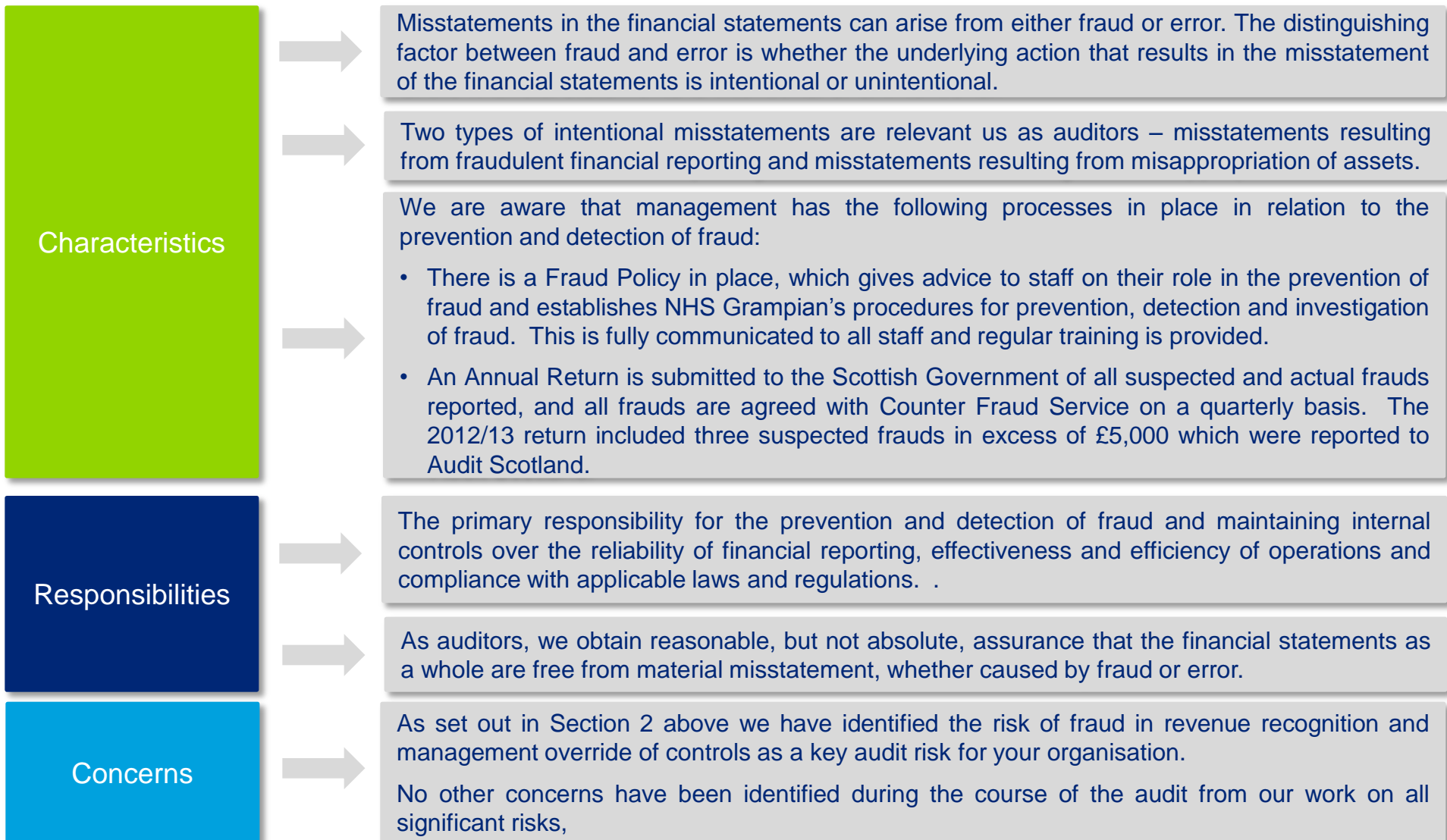
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board 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.

Appendix 3: Fraud considerations

Fraud considerations

The following represents a reminder of the fraud enquiries made at the planning stage of the audit:



Appendix 4: Representation letter

Representation letter

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB
United Kingdom

Our Ref: NHSG/2013

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 2013 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 2013 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.

Representation letter (continued)

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.

Representation letter (continued)

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.

Representation letter (continued)

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

Appendix 5: Additional resources available to you

How we keep you up to date: Financial Reporting

IAS Plus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting for accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. 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>.

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. www.deloitte.com/centerforhealthsolutions.

IFRS 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.

Publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance to companies reporting under the relevant GAAP; 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 round up of recent developments. iGAAP alerts are issued whenever a new exposure draft or standard is issued.



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

© 2013 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Member of Deloitte Touche Tohmatsu Limited