

Deloitte.



Final report to the Board
and the Auditor General
on the 2014/15 audit

29 June 2015

the
Distinctive
audit

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Our final report

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A reminder of our audit plan:

- Materiality: £8,600k (2013/14: £8,216k).
- Performance materiality: £5,692k (2013/14: £5,751k).
- Threshold for reporting misstatements: £81k (2013/14: £82k).
- Significant risks over achievement of core expenditure resource limits, provisions, management override of controls, other income recognition and property, plant & equipment valuations.
- We have taken a controls reliance approach for payroll and expenditure, using the work of internal audit for payroll.
- We have not identified any additional significant risk areas since our plan was issued.
- There have been no changes to our audit plan presented to you in December 2014.



Partner introduction

Partner introduction

Financial statement audit

I have pleasure in presenting our final report to the Board for the 2014/15 audit. I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

- The key judgements in the audit process related to:
 - Achievement of expenditure resource limits;
 - Calculation of clinical and medical negligence provision;
 - Other income recognition (being completeness of income outwith core funding); and
 - Property, plant and equipment valuation.
- We have identified a small number of audit adjustments from our procedures to date. In line with previous years, an adjustment has been identified following the true-up of actual costs with the estimated amounts included in the prescribing accrual at the balance sheet date. The amount under-accrued was £188k and is included in Appendix 1, together with the effect of a number of other small over-accruals, resulting in a net over accrual of £38k.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

Insight

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year and insights have been noted for management consideration, including review of journal lines posted at a value less than £100, and the number of journals with "error" in description. These will be discussed further with the finance team Best Practice Group.
- Our planned review of the clinical governance arrangements at the Board, following on from the outcomes of the Health Improvement Scotland (HIS) review is ongoing, but will be reported to the September Audit Committee.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Finalisation of quality control procedures;
 - Receipt of signed management of representation letter; and
 - Our review of events since 31 March 2015.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives for this audit:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the Audit Scotland impact dimensions with regard to NHS Grampian.

Financial sustainability

Financial sustainability continues to be one of the most significant challenges and risks for NHS Grampian. We will continue to monitor these arrangements.

NHS Grampian has a 5 year budget in place. While only 29% (£7.2 million) of savings remain unidentified for 2015/16, this increases to 65% - 76% in the following four years. The Board is currently developing cost reduction plans to identify means of achieving balance.

Financial Management

The final outturn was an in year surplus of £21k against a breakeven target resulting in a cumulative surplus of £137k.

NHS Grampian complied with all financial targets in the year.

Best Value (BV)

We agreed to focus our BV work on a review of the Board's improvement plan developed in conjunction with the outcome from the HIS review. The scope of this work, focusing specifically on Clinical Governance has been agreed and the outcome will be reported to the September Audit Committee meeting.

We have also followed up our BV toolkit work from previous years and note that progress continues to be made on the recommendations made.

Governance and Transparency

An Improvement Programme was approved by the Board in April 2015 following the publication of the HIS review, which incorporated detailed actions on board governance and leadership.

A number of changes in leadership were noted during the year, with a new Chief Executive and Medical Director being appointed, along with the Director of Public Health leaving, with the post currently being covered on acting basis.

Monthly management reports are clear and produced in a timely manner.

We facilitated an Audit Committee development session in March 2015 and concluded that in general the committee is working effectively and in line with best practice.



Partner introduction (continued)

Significant risk dashboard



Fraud risk	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Core expenditure resource limits			
✗	Evaluate design / implementation of key controls. Controls reliance taken over payroll and expenditure. No significant observations.	●	We have confirmed that NHS Grampian has performed within the limits set by the Scottish Government.
Clinical & medical negligence provisions			
✗	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	Provisions based on information provided by the Central Legal Office. 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. Additional provision recognised in 2014/15 for the Board's liability from participating in the CNORIS scheme, resulting in a prior year adjustment.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We have noted no issues with 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.
Other income recognition: completeness of funding			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	Income recognised agrees to the final allocation per the Scottish Government. Income from other NHS Scotland Boards confirmed to third party confirmation via SFR 30.
PPE valuation			
✗	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	Revaluations of PPE based on methodology and assumptions adopted by the District Valuer. We are satisfied that the correct guidance has been followed, with the exception of the observations on Modern Equivalent Asset (MEA) considerations and Building Cost Information Service (BCIS) Location Factors noted on page 13. These issues do not have a material impact on the financial statements.

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

Scope, nature and extent of audit

Scope, nature and extent of audit

Our overall responsibility as external auditor of the Board is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements (including any assurance statement on consolidation templates and summary financial information);
- Providing the annual report on the audit to those charged with governance;
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in National Fraud Initiative (NFI)); and
- Undertaking work required by Audit Scotland, including: providing information for the NHS financial performance report and NHS current issues report for the Auditor General; a review of elements of Best Value in Boards and feedback on local responses to national performance audit reports in Boards.

In addition to this annual report, we have completed and reported the following matters to those charged with governance (the Audit Committee) of the Board:

- Planning Report; and
- Progress reported to each Audit Committee meeting.

The key issues from these outputs are summarised in this report.



Significant risks

Core Expenditure Resource Limits

Nature of risk

Key financial duty for NHS Grampian to comply with the Revenue Resource Limit, Capital Resource Limit and cash requirements set by the Scottish Government. Given the overspends reported at various points during the year, there is a risk that these full year limits will be exceeded.

Key judgements

This is a key focus for management and our audit testing. We must provide an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We have assessed whether expenditure is correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Government's guidance. No issues noted.

	Expenditure £000s	Resource Limit £000s	Underspend £000s
Core Revenue Resource Limit	873,216	873,079	137
Non Core Revenue Resource Limit	39,130	39,130	-
Capital Resource Limit	12,775	12,775	-
Non Core Capital Resource Limit	9,436	9,436	-
Cash Requirement	932,047	932,047	-

Deloitte response

Audit work performed to address the significant risk

- We performed focused cut-off testing and in particular testing of the prescribing accrual to assess completeness of recorded expenditure. With the exception of the uncorrected misstatements noted in Appendix 1, no issues were noted.
- We also obtained independent confirmation of funding allocated to NHS Grampian by the Scottish Government in its letter of 29 April 2015 and we have agreed the cash draw down to the bank statements.

Deloitte View

- 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 Directorate (SGHSCD) and therefore in compliance with the financial targets in the year.

Clinical and Medical Negligence Provision

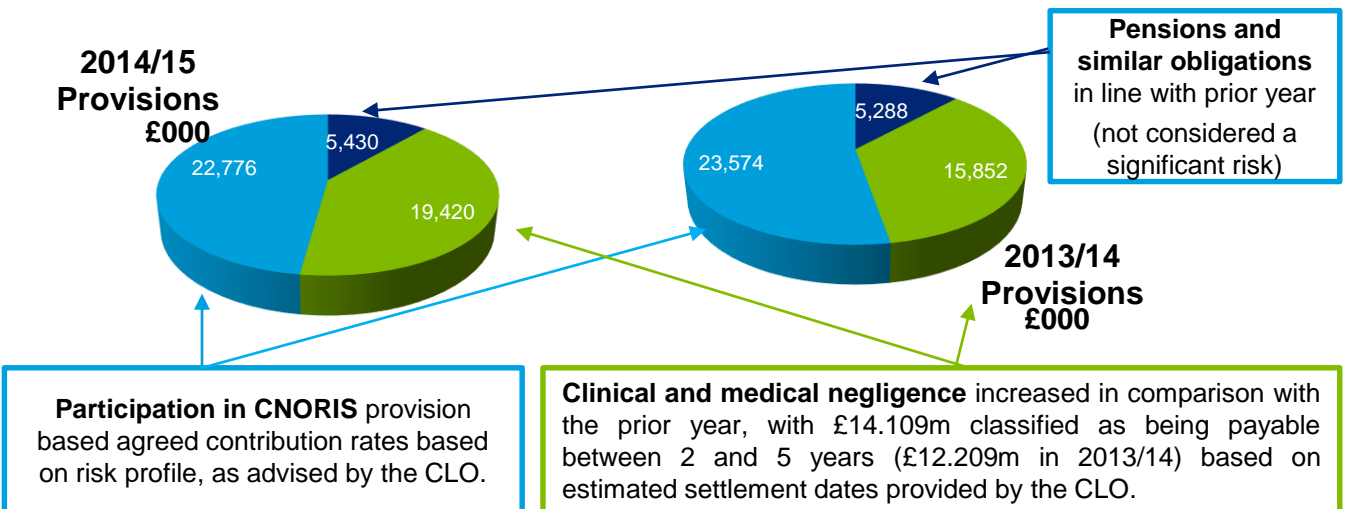
Nature of the risk

There is significant judgement and complexity around this calculation, with both the Provision for claims and associated Debtor (in respect of the reimbursement from NHS Scotland of any settlements in excess £25,000) individually material. As such, there is an increased risk that the provision is incorrect or incomplete.

As a result of a review of the accounting treatment of the provision in the Scottish Government accounts, NHS Boards are now required to carry an additional provision in order to fully reflect the Board's participation in, and future liability for contributions to the Clinical Negligence and Other Risks indemnity Scheme (CNORIS). This required a prior year adjustment to be made in the 2014/15 financial statements.

The movement in the provision between financial years is matched by a corresponding adjustment in Annually Managed Expenditure (AME) provision and is classified as non-core expenditure.

Key judgements



- We obtained a direct legal confirmation from the Central Legal Office (CLO) in relation to ongoing litigation cases and agreed the year end provisions against ongoing legal cases.
- We have also confirmed that the additional provision is based on confirmation from the CLO and in line with guidance issued by the Scottish Government.
- We have obtained an update on outstanding claims post year-end to ensure completeness.
- 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.

Deloitte response

From our audit procedures, we are satisfied that the provision and associated debtor are not materially misstated.

Property, Plant and Equipment Revaluations

Risk Identified

Changes in the property market and economic environment can drive significant movements in valuation. There is a risk of material misstatement of the property, plant and equipment on the balance sheet.

IFRS requires assessment with significant regularity to ensure no significant divergence between carrying value and fair value of assets.

Net Book Value of Property, plant & equipment at 31 March 2015:
£559.716 million (31 March 2014: £545.610 million)

Key judgements

- We reviewed the external revaluations performed in the year and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified independent individuals;
- We tested a sample of revalued assets and re-performed the calculation assessing whether the movement has been recorded through the correct line of the accounts;
- We considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- We involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the District Valuer (DV).

Deloitte response

We are satisfied that the correct guidance has been followed and the correct valuation bases are being adopted. The DV is independent of NHS Grampian, appropriately qualified and appears to have the requisite experience to undertake the valuations.

From our audit procedures, we can also conclude that the NBV is not materially misstated. We have, however, made some observations in relation to the methodology adopted by the District Valuer which are detailed on page 13.

The upward revaluation of £22.123 million credited to the Revaluation Reserve comprises the following significant increases:

- Aberdeen Royal Infirmary £6 million
- Emergency Care Centre £6.425 million
- Dr Grays Hospital £2.2 million
- Royal Cornhill Hospital £2.2 million

An impairment charge to the SOCNE of £5.832 million is in relation to capital costs in the year which have been re-valued downwards based on the valuation of projects.

Property, Plant and Equipment Revaluations (continued)

Modern Equivalent Asset (MEA)

As reported in our 2013/14 final report, whilst the DV has confirmed that the MEA has been assessed in relation to assets valued on the DRC basis, this is largely restricted to the adoption of modern replacement build costs. It would appear that the DV's MEA considerations do not extend to the consideration of buildings or site sizes as they argue that it is for the client to determine whether the buildings or sites are of the correct or superfluous size to deliver the existing services.

We understand that this was considered by NHS Grampian a number of years ago, but has not been revisited.

Conclusion

We concluded that this issue did not have a material impact on the current year valuation, however, we consider that NHS Grampian needs to have a continued ongoing dialogue with the DV on this issue as the valuations should take account of all MEA considerations including the size of a modern NHS Grampian estate. [Appendix – Action Plan.](#)

BCIS Build Cost Indices

The DV has confirmed that they have not used Building Cost Information Service (BCIS) Location Factor adjustments when determining their build costs adopted in the DRC valuations for specialised assets. The DV has explained that the Scottish Government allowed health boards to elect not to adopt Location Factor adjustments due to their occasionally volatile nature. This should be reviewed to ensure consistency with other NHS bodies.

Conclusion

We concluded that this issue did not have a material impact on the current year valuation, however, we would recommend that there is continued dialogue between the DV and NHS Grampian on this issue. If build costs are not adjusted to reflect the BCIS' Grampian Location Factor, the DV should support this approach by evidencing analysis of actual build costs for projects in the Grampian area, which justify the adoption of a higher national rate. [Appendix – Action Plan.](#)

Other Income Recognition: Completeness of funding

Risk Identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The risk is pinpointed to completeness of other operating income outwith the core funding from the Scottish Government.

Key judgements

We have assessed completeness of income through our year-end cut-off procedures & assessed recoverability of outstanding amounts at year-end.

Deloitte response

- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the financial reporting manual (FReM).
- We have agreed third party confirmation to those amounts due from other NHS Scotland Boards.

Management override of controls

Risk Identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that management may be able to override controls that are in place to present inaccurate or fraudulent financial reporting.

Key judgements

Our audit work is designed to test for instances of management override of controls.

We have summarised on pages 10 to 14, our work on key estimates around other income recognition, provisions and valuation of property, plant and equipment.

Deloitte response

- No 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.
- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year and insights have been noted on pages 16 and 17.

Insights from Journal entry testing

We have utilised **Spotlight** to perform analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

Key Metrics	2014/15	2013/14
Total number of journal lines	1,936,205	998,071
Journal lines with zero value	22,914	96,961
Total number of journals	232,935	186,107
Total dormant GL accounts	163	N/A

Note: Excluding automated, journals with zero value is 14,871

Top 5 Users by Volume 2014/15			
Current Year Users		New Users	
Username	Total	Username	Total
NKB1	50,205	NKG1	3,982
NAH1	49,804	NSA0	1,120
NCB1	44,173	NLS2	418
NDR1	28,144	NSP1	125
NSJ1	12,112	NRD1	36



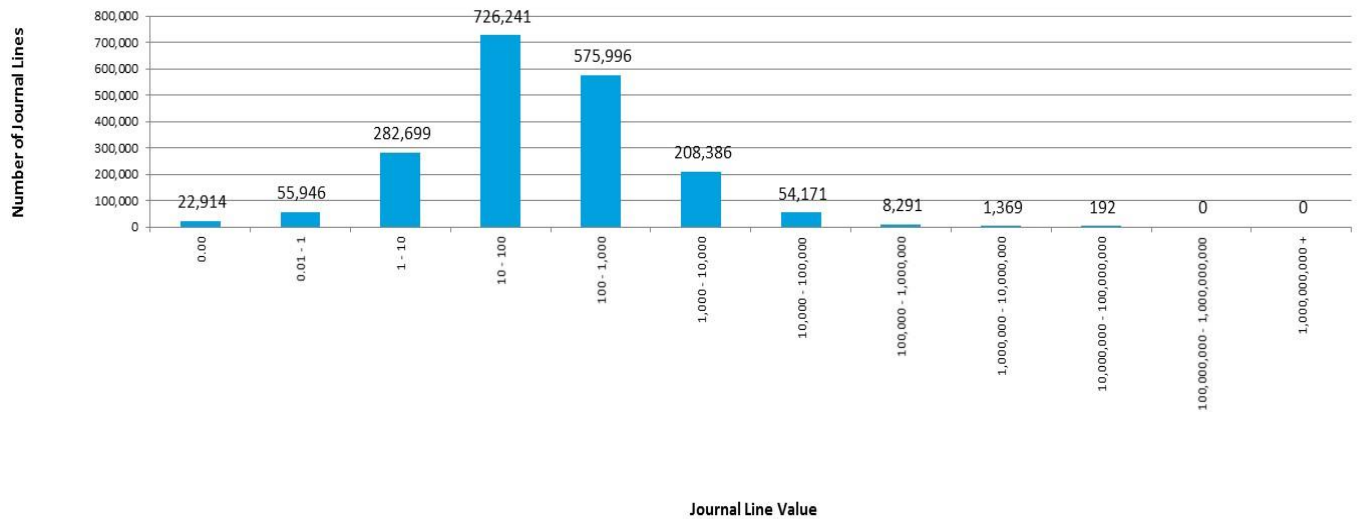
User Statistics	2014/15	2013/14
Number of users posting journals in the period	51	53
Average number of journals per user	4,567	3,511

Error Statistics	2014/15	2013/14
Total number of journals with 'error' or 'correction'	488	128
Total of error journals to unrelated accounts	13	9

Commentary from finance team:

- Increase in journals in the year – during 2014/15 Estates were brought on to PECOS (purchase order system), as such this has resulted in a significant increase in transactions posted in the period.
- Journal lines with zero values – excel templates are used in populating common journals, as such, this can result in a template being uploaded with a number of lines with a value of zero, the templates help to save on efficiencies by reducing the need to prepare a journal each time a similar format is required. Deloitte has provided a breakdown of the zero line journals to the client, these will be assessed to determine if any of these are not as a result of using templates to determine if efficiencies can be made in this area.
- Dormant accounts – There has been a focus on standardising General Ledger (GL) codes across all NHS Boards in the previous year resulting in some codes becoming redundant. NHS Grampian cannot block or close accounts without this affecting all NHS Boards (as the GL is centrally managed), as such, the review of dormant accounts should be performed.

Insights from Journal entry testing (continued)



Note: Excluding automated, journals with zero value is 76,341

Points for management consideration:

- From the analysis of journal line values, over 1 million lines are for less than £100. Excluding automated journals, this number reduces to 76,341. There is therefore scope to make efficiencies by reviewing the journals posted and potentially batching smaller value transactions.
- While the overall number of journals with “error” in the description is low, the underlying reasons should be investigated to reduce the need for correcting journals. The number of error journals posted in the period have increased by 360 (0.14%)
- Over 14 users have processed less than 10 journals per quarter (2013/14: 17 users). The Board should consider the need for all users to have access.
- From the analysis of general ledger account codes a number of codes are used infrequently and there are currently 163 dormant GL account codes. The Board should consider the need for all these codes.

Deloitte have agreed to attend the finance team’s Best Practice Group to discuss the transaction insights in more detail to inform discussions on potential efficiency improvements.

Best value, use of resources and financial performance

Financial performance and outlook

Value for money

NHS Grampian budgeted a breakeven position for the year to 31 March 2015. The final out-turn was a surplus against the core revenue resource limit of £21,000 which added to the brought forward surplus from the previous year resulted in a net surplus against revenue resource limit of £137,000.

Overall financial and quality performance

The table below illustrates how the Board's performance compares to plan and prior year:

	2014/15 Recurring £'000	2014/15 Non- Recurring £'000	2014/15 Total £'000	2015/16 Total £'000
Income	1,037,498	34,148	1,071,646	1,079,887
Expenditure	1,055,123	39,584	1,094,707	1,104,789
Savings	17,393	5,805	23,198	24,902
Surplus/ (Deficit)	(232)	369	137	Nil

NHS Grampian had a year end underspend of £137,000. This was achieved through a combination of the significant underspends and overspends reported as follows:

- The pay budget reported an overspend of £3.814 million (0.7%) which included a £3.3 million overspend due to agency locums to cover vacancies together with banding costs for non-compliant junior medical locums. In addition a £2.3 million overspend on the nursing budget which was a reflection of a combination of impact of incremental drift, high level of bank usage and some areas operating significantly in excess of funded establishment. Pay budgets for all other staff groups reported an underspend in the year.
- The Acute Sector remains the largest risk to NHS Grampian's ongoing financial performance and reported an overspend of £6.4 million in the year, two-thirds of which relate to pay costs as noted above. The overspend is lower than 2013/14 (which reported an overspend of £8.5 million) and reflects a period of significant transition and intense scrutiny within the Sector.
- GP prescribing budget reported an overspend of £3.6 million reflecting higher unit costs than were built into the budget together with non-achievement of a number of projected efficiency savings.
- A £10.9 million underspend on centrally held reserves reflecting a significant degree of slippage on earmarked funding allocation to NHS Grampian by the Scottish Government during the year. There were also a number of other "windfalls" that contributed to the position, including receipt of Scottish Government funding to deal with some of the one off property costs, slippage against agreed investments due to recruitment challenges, lower than budgeted energy costs and lower than expected contribution to the regional Medium Secure Unit.

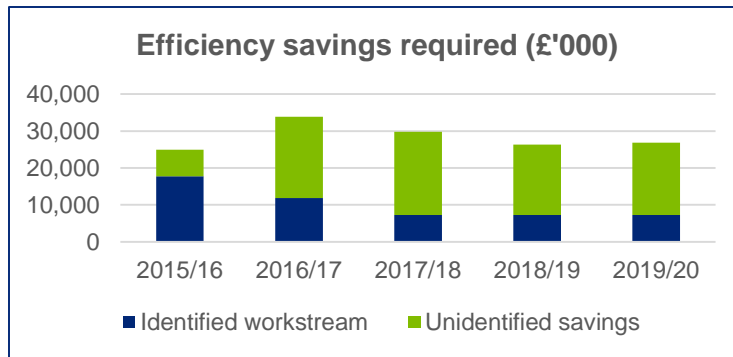
Conclusion

No issues noted from our review of the treatment of income and expenditure in the year, which has been accounted for in line with the FReM.

Financial performance and outlook (continued)

Financial outlook

The 2015/16 revenue budget and capital programme were agreed by the Board on 4 June 2015. 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/ productivity improvements in each of these years, which the Board recognises will be challenging. The value of saving is shown below.



The base funding uplift of £14 million plus the additional move to NHS Scotland Resource Allocation Committee (NRAC) parity amounts to a £43 million funding increase in comparison with 2014/15. In addition, the budget reflects recent funding announcements on additional drug costs (£3.7 million), Delayed Discharge funding (£2.7 million) and the uplift to the Integrated Care Fund (£2.4 million).

This is offset by additional cost pressures of £36 million and targeted investment of £15.8 million. The targeted investments are in line with national health priorities and/ or local priorities.

2015/16 Cost pressures	£'000	2015/16 Targeted Investment	£'000
Increased pay costs (including locums)	15,300	Treatment time guarantee	7,500
Non-pay uplift and Service Agreements	1,400	New Baird Family Hospital and ANCHOR Centre	1,800
GP and Hospital Drugs	13,800	Unscheduled care – investment in ARI front door	2,100
Targeting cost pressure funding	5,500	Additional nursing capacity	1,300
Total	36,000	Other local service developments	1,600
		National priorities	1,500
		Total	15,800

As noted on page 19, the Acute Sector still presents the largest risk to NHS Grampian's overall financial performance and will be expected to prepare a robust cost reduction plan for 2015/16 in order to recover the financial position. Transforming services is difficult because many of the required changes impact upon clinical roles and responsibilities, and how staff go about their day to day business. Owing to a range of factors, clinical staff like anyone else find it difficult to change, even if they are uncomfortable or frustrated with the way services are organised and delivered. In our experience, one of the most important factors to addressing this is to establish a clear need for change. We believe that clinicians in particular are very 'input-output' focused: they want to understand the business economics behind the change and are often so busy with delivering day to day services they do not consider how current practice impacts upon financial performance.

Performance targets

NHS Grampian has a Local Delivery Plan which is approved by the Board and the Scottish Government Health and Social Care Directorate. This contains a set of performance measures which are reviewed by the Board and the Performance Governance Committee. During the year the Board made a number of changes to performance management arrangements to further strengthen the scrutiny and monitoring at Board, Executive and Operational Sector level.

The overall approach adopted is that performance management is integral to the delivery of quality and effective management, governance and accountability. The need for transparent and explicit links of performance management and reporting within the organisational structure at all levels is critical and recognised within the new arrangements. The indicators noted below are a subset of the comprehensive scorecard against which Board performance is monitored and sets out by way of example those measures that were considered in detail at the most recent Board meeting. The Board report focuses by exception primarily on those areas where there has been a change in performance or where further improvement is required. There is a comprehensive framework of measures at directorate and service level. The assessment noted below against each indicator is for most recent reporting month / quarter for which there is published performance information.

Measure	As at	Frequency	Performance ¹
MRSA/MSSA Bacterium	Feb-15	Monthly	Red
Clostridium Difficile Infections	Feb-15	Monthly	Green

Responsive			
Measure	As at	Frequency	Performance
Rate of attendance at A&E	Mar-15	Monthly	Green
A&E 4 hour standard	Mar-15	Monthly	Amber
14 days delayed discharge	Mar-15	Monthly	Red
New OP DNA	Feb-15	Monthly	Green
Pre-operative stay	Sep-14	Quarterly	Amber
Faster access to CAHMS	Feb-15	Monthly	Red
Faster access to psychological therapy	Feb-15	Monthly	Red
Suspicion of cancer referrals (62 day)	Feb-15	Monthly	Red
All cancer treatment (31 day)	Feb-15	Monthly	Green
18 week Referral to treatment	Feb-15	Monthly	Red
Treatment time Guarantee	Apr-15	Monthly	Red
Outpatient Waiting	Feb-15	Monthly	Red

¹ Performance against agreed trajectory

Key	
Green	Performance against trajectory target achieved
Amber	Performance not at trajectory but plans in place to deliver at required standard
Red	Performance not at trajectory but plans are being developed to improve position

Performance targets (continued)

Effective			
Measure	As at	Frequency	Performance ¹
Smoking Cessation	Dec-14	Quarterly	Red
Alcohol brief interventions	Dec-14	Quarterly	Green
Cardiovascular health checks	Feb-15	Monthly	Green
Breast feeding at 6-9 w eeks	Sep-14	Monthly	Red
Dementia post diagnostic support	Sep-14	Quarterly	Red
Reduction in bed days aged 75	Mar-15	Monthly	Red
Return to new outpatient ratio	Mar-15	Monthly	Red
Access to stroke unit	Dec-14	Monthly	Green
Insulin Pumps	Feb-15	Monthly	Amber

Caring			
Measure	As at	Frequency	Performance
Response to patient feedback	Mar-15	Monthly	Green

Well Led			
Measure	As at	Frequency	Performance
Sickness Absence	Feb-15	Monthly	Amber
Finance	Mar-15	Monthly	Green

¹ Performance against agreed trajectory

Examples of the actions being implemented to improve performance in a number of the areas highlighted above are as follows:

- **Delayed discharge** - Implementation of comprehensive cross system and sector specific actions, progress against which is monitored on a monthly basis by the executive directors.
- **Cancer referrals** – The Board has approved an investment in the endoscopy service to increase capacity and expects performance to improve during 2015/16, with the aim of achieving the national target during the year
- **Treatment Time Guarantee and Outpatient Waiting** - the Board has approved a comprehensive Acute Sector Waiting Times Plan which has been agreed with Scottish Government as part of the local delivery plan. This includes further investment in additional capacity.
- **Dementia post diagnostic support** - commitment to funding linked worker posts employed by Alzheimer Scotland, with each person allocated a linked worker and offered personalised support for one year
- **Access to CAHMS and Psychological Therapy** – commitment to filling vacant posts and implementing alternative support to assist patients whilst patients await an appointment
- **Return to new outpatient ratio** – specialty specific evaluation of options for managing patients who require ongoing review and support

Performance targets (continued)

Deloitte comments:

The above performance targets are regularly reviewed by senior management and the Board. As noted in the financial outlook on page 20, the Board has agreed to invest in areas in future years including treatment time guarantees, unscheduled care and nursing capacity.

In view of the imminent changes with regard to Health and Social Care integration, as discussed further on page 25, the Board should continue to assess the impact this will have on its achievement of targets, particularly those currently flagged as red or amber.

With specific reference to delayed discharge, we held a workshop with the Chief Officers from the new Health and Social Care Partnerships to demonstrate how applying analytics can be used to help identify what is driving the delays to help focus any service re-design. Following this workshop, it was agreed that the Partnerships should look to develop a solution for analysing delayed discharges based on patient pathways through hospital and back into the into the community. As a first step, they should focus on understanding the part of the patients' journey in hospital. Subsequent work can then focus on understanding datasets held by local authorities, GPs and other parties and seeing if it is possible to link these back to the core information held by the health board.

Best Value

The Code of Audit Practice requires us to consider Best Value. In 2014/15, we agreed to focus on the planned integration of adult health and social care and the follow-up of our BV Toolkit work from previous years and assessing the effectiveness of the audit committee.

Integration of adult health and social care

We have undertaken a review of the current arrangements and plans in place to develop the Health and Social Care Partnerships with the three constituent Councils including a follow-up of the agreed recommendations from our 2013/14 BV toolkit work.

All three Integration Schemes have been agreed by partners by the end of March 2015 following extensive consultation and are now with the Scottish Government for approval. There has been close liaison with the Scottish Government during their drafting and they are expected to be signed off in July 2015, at which time the entities will be formally established in legal terms.

Work is now underway to draft the Strategic Plans, with all functions formally being delegated from 1 April 2016.

The principle in the Public Bodies (Scotland) Act is that all services included in the legislation should be delegated but those hospital based services that are embedded within larger hospitals, e.g. Aberdeen Royal Infirmary, will remain directly managed by NHS Grampian. The Integrated Joint Board's (IJB's) will, however, be responsible for the strategic planning of those services and for the whole pathway of care. In relation to the delegated services provided across Grampian, a condition of the delegation is the requirement for a memorandum of understanding agreed by the IJBs and NHS Grampian to ensure that all parties are satisfied with the management and coordination arrangements that will be put in place. This was considered at the North East Partnership Steering Group in February and there was a consensus on this way forward. These arrangements will be developed by the Strategic Change Management Group and North East Partnership Steering Group for approval by the parent organisations and the shadow IJBs. This is expected to be completed early in 2015/16.

The development of the budgets associated with the delegation of services continues during 2015 and a process of due diligence will be agreed to ensure that the final budget allocations are fair and reasonable for all parties.

Overall, work is progressing and regular reports are provided to the Board on status.

Best Value (continued)

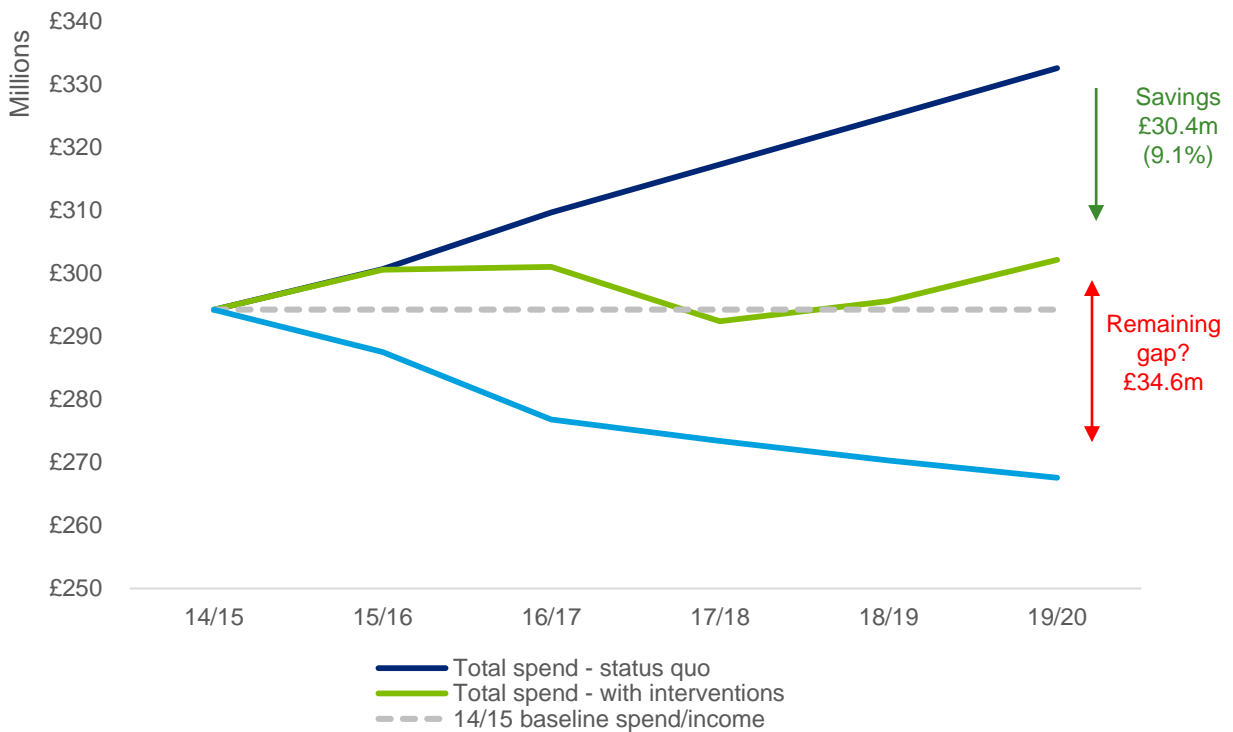
Integration of adult health and social care (continued)

As both the health and local government sectors continue to be under huge financial pressure it is important that the new IJBs use the integration of adult health and social care to make transformational changes.

Case Study – Early Intervention

Deloitte has been involved in work in England and carried out a case study on an organisation which had an early intervention programme and assisted living service within local communities due to go live in 2015/16. We estimated the benefits that might be possible from the programme, looking forward at the financial position on a “do nothing” baseline and then applying assumptions around reductions in activity based on best practice evidence available. We were then able to advise on the make up of the programme and make recommendations on the best approach to delivering the projects and on the governance structures and resourcing required to enable the programme to achieve its ambitions.

From this work we estimated that the programme could deliver £30m in savings as illustrated in the following diagram, which should at the same time improve outcomes.



We recommend that the IJBs consider applying a similar analysis to help identify how best to target its work on interventions and to deliver better outcomes from the new pooled budgets.

Best Value (continued)

BV Toolkit – Planning and Resource Alignment

Our 2011/12 BV Toolkit review assessed the Board's arrangement for outcome based planning. Some areas were noted for management consideration, which were to be considered as more medium to long term actions. We have followed up the agreed actions from this report and noted the following progress:

- With the forthcoming establishment of integrated joint boards, the Board has been reviewing the major work programmes and re-assigning responsibilities. The focus for 2015/16 will be on an integrated cross system unscheduled care programme (with an appointed executive and senior operational lead), a Primary Care Modernisation Programme and the Acute Sector Access Standards Plan (led by the Acute Sector General Manager). Significant focus will also be given to the development of the joint strategic plans for the new integrated joint boards.
- In line with the Government's commitment to reviewing the national 2020 vision, the Board is in the process of reviewing its overall strategic direction and its priorities for health and social care. This review of the Board's strategy will be undertaken alongside the development of the strategic plans for the new integrated joint boards.
- A combined finance and performance report is now prepared monthly for review by the executive team. A similar combined report is now presented at each full Board meeting.
- The national costing group has determined the preferred costing option - patient level costing - and is in process of determining how this be implemented.

Progress continues to be made on each of the recommendations made.

BV Toolkit – Efficiency

Our 2012/13 BV Toolkit on efficiency focussed on the community health services across each of the Community Health Partnerships. We have follow up the agreed actions from this report and noted the following progress:

- The Board has progressed the review of Health Visiting (linked to national funding and the enactment of the Children and Young Persons Bill). Work is ongoing in respect of reviewing nursing capacity within the community and community hospitals. The integrated joint strategic plans will further develop the planning for redesign of community based health and social care resources.
- In terms of supporting the development of the joint strategic plans, the Board's Health Intelligence function has provided supporting data to assist with the identification of priorities to address the changing needs of communities and support the principle of increasing home / community based care.
- A process to collect patient contact data more regularly is still being reviewed as part of a national and pan Grampian review of community based information. Currently a lack of an effective data platform for community based staff is a key limiting factor.
- The Board has agreed the key areas of focus for pan-Grampian efforts to achieve efficiencies. These are in addition to the development of individual sector savings plans.

Progress continues to be made on each of the recommendations made.

Effectiveness of the Audit Committee

In March 2015, we facilitated the annual review of effectiveness and development workshop with members of the Audit Committee. The Committee concluded that overall, it was generally working effectively and in line with best practice. We did, however, highlight a number of areas for improvement, which were considered by the Committee (as summarised below).

Membership

While individual support is provided by the Assistant Director of Finance to new Committee members, the induction process for members of the Committee should be refreshed to ensure that it is covering all the required areas.

Roles and Responsibilities

The Audit Committee has an annual work programme and a forward work plan is used by the Executive Management to inform Board agendas, although it is still to be formally agreed. We have therefore recommended that the Board and all Committees have a work programme in place to ensure no overlap or anything being missed which should then drive the content of the agenda for the respective meetings. This could be achieved by holding similar development workshops with the other committees.

Consideration should be given to sharing the draft internal audit plan with the Chairs of the other Committees to get any input prior to being finalised. We note that all Board members were given the opportunity to comment on the draft plan for 2015/16 and consideration is being given to holding a focused session looking at future risks and the audit plan for 2016/17.

The terms of reference include many aspects of good practice but could be further enhanced by inclusion of items as discussed at the workshop, including inclusion of the responsibility to review the adequacy of arrangements by which staff can raise concerns in confidence and outlining that at least one member of the Audit Committee should have recent and relevant financial experience.

Audit Committee reporting

There was evidence of some reports including a section on risk but this wasn't consistent in all reports to the Audit Committee. We note that this is included in the standard Board format and is expected to be in the new "information" document format.

The format of reports could be further strengthened by including: an indication of whether the paper has previously been considered by any other forum; an assessment of data quality (where applicable); and whether there are any implications for regulatory compliance.

Committee reporting to the Board could be further enhanced to more clearly articulating key assurances, risks, strategic links and points for escalation and action at the Board.

Audit Committee holding to account

An action log is in place which includes owners, timescales and a description of the required action. To enhance the Committees effectiveness in holding to account, consideration should be given to inviting a wider range of management by exception to discuss progress against specific actions where deemed necessary.

National Fraud Initiative

All boards and special boards except Mental Welfare Commission are participating in the National Fraud Initiative (NFI) 2014/15, and were required to submit data in October 2014. As at 31 May 2015, no frauds have been identified.

Assistant
Director of
Finance
continues to take
lead for
creditors.

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

Fraud (including
NFI) is a regular
item on the Audit
Committee
agenda

All data was submitted to the NFI in accordance with the deadlines of October 2014, and management now have plans in place to address all of the recommended matches over the period from June to December 2015, with adequate resources being allocated to this work. Overall, NHS Grampian is fully engaged with the NFI exercise. We will submit the checklist to Audit Scotland for the 30 June 2015 deadline noting current progress.

We have also offered management the opportunity to make use of our free Moneyback tool which is designed to supplement the work of NFI through applying advanced analytics to the creditors ledger focusing on the identification of duplicate invoices, untaken credits and other anomalies within the purchases ledger.

Governance and accountability

Governance and Transparency

Governance arrangements are operating effectively

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



We confirm that we have reviewed the arrangements in each of the four areas and have identified no issues in this regard.

A number of changes in leadership were noted during the year, with a new Chief Executive and Medical Director being appointed, along with the Director of Public Health leaving, with the post currently being covered on acting basis.

Following the publication of the HIS report, the Board has developed an Improvement Programme which is being monitored regularly by the Board. This includes detailed actions on Board Governance and Leadership. To support the Board, we plan to undertake an independent review of the clinical governance arrangements at Board level and within the Acute Sector, building on the work done by the Board to assess its own effectiveness. The outcome of this work will be reported to the September Audit Committee.

We have no concerns around the arrangements with internal audit. 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. We have reviewed the working papers of internal audit in relation to expenditure controls to ensure that it has covered all key controls and have re-performed a sample of testing, with no issues noted.

We are comfortable with the fraud arrangements in place and confirm there have been no financially significant frauds of which management have made us aware.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Audit Committee our observations on the annual report. 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:

	Deloitte response
Directors' Report	<p>“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”.</p> <p>We noted that the Board and committees met regularly throughout the year and in line with the NHS Board Accounts Manual, the Directors’ Report includes relevant disclosures around the basis of preparation around Going Concern.</p> <p>All disclosures made are in accordance with the FReM and Accounts Manual.</p>
The Strategic Report	<p>The Strategic report comments on financial performance, strategy and performance review and targets. Deloitte note that the Strategic Report has been prepared in line with issued guidance.</p>
Remuneration Report	<p>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.</p> <p>Appropriate disclosure has been made following the retirement of the former Chief Executive. No redundancy payments, service enhancements or other compensation for loss of office were paid to him on his retirement.</p>
Governance Statement	<p>The Governance Statement reports that NHS Grampian is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable to NHS Boards.</p> <p>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.</p> <p>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.</p> <p>Appropriate disclosure has been made regarding the governance and financial assurance arrangements being put in place regarding the Integrated Joint Boards.</p>

Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Other insights we have identified from our audit.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

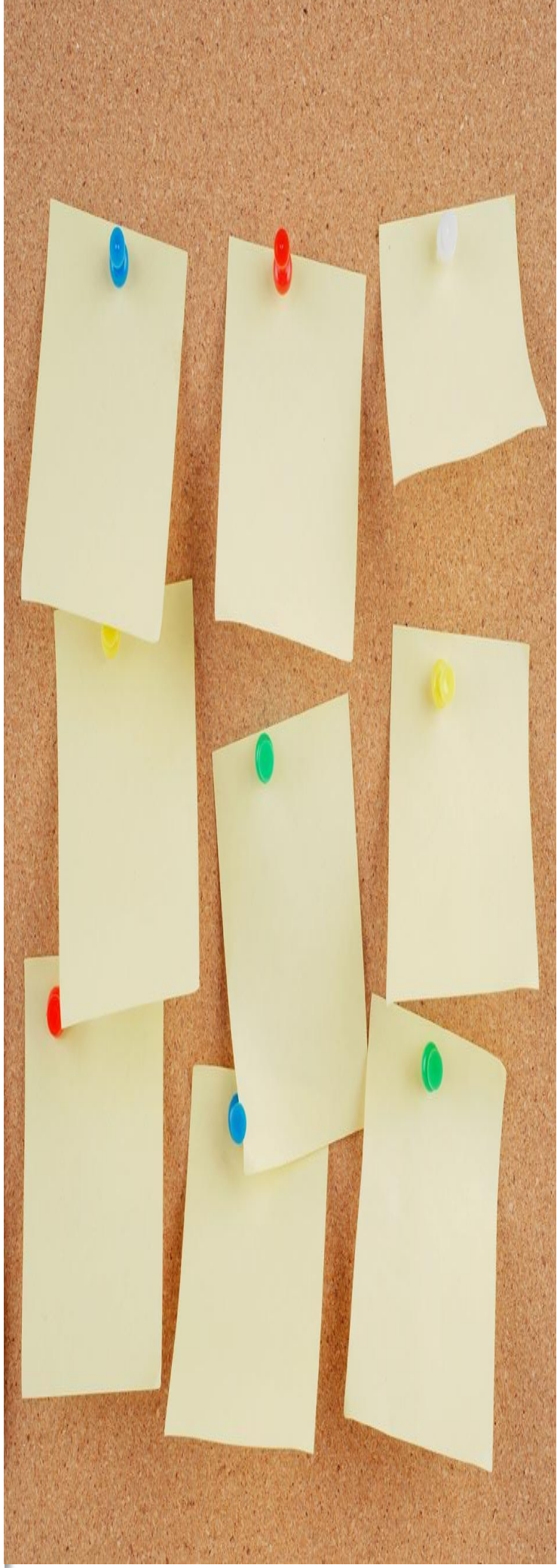
- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Edinburgh
19 June 2015

Appendices



Audit adjustments



Summary of uncorrected and corrected misstatements

Uncorrected misstatements

Description	Assets	Liabilities	Equity	Income Statement
	DR / (CR)	DR / (CR)	DR / (CR)	DR / (CR)
	£	£	£	£
Net Adjustment for under accrued expenses	291,392	(252,734)		(38,658)
Total	291,392	(252,734)	-	(38,658)

- The adjustment to accrued expenses incorporates the following;
 - Prescribing accrual - In line with previous years, due to the timing in receipt of data on expenditure relating to prescription costs, a difference of £188k has been noted between the amount accrued and the actual expenditure incurred. This would result in an increase to both accrued expenses and expenses in the SOCNE at year end
 - Other FHS Accruals, including Ophthalmic accrual – Similarly to the above, due to timing of receipt of data, a further difference was noted of £291k, mainly relating to ophthalmic services expenditure. As this expenditure receives non-discretionary funding, there is a corresponding difference in accrued income relating to this balance, therefore the net effect is nil.
 - Other accruals, an adjustment for £226k of over accrued expenses (primarily utilities) at year end has been proposed, following our testing of subsequent invoices received post year-end.
 - Net adjustment to accruals of £38k, therefore has no impact on the Board's achievement of Net Saving against revenue resource limit

Corrected misstatements

Description	Assets	Liabilities	Equity	Income Statement
	DR / (CR)	DR / (CR)	DR / (CR)	DR / (CR)
	£	£	£	£
Net Adjustment for over valued property	(250,500)	-	250,500	-
Unbooked payments at year end	(172,794)		172,794	
Total	(423,294)	-	423,294	-

- The valuation provided in the final reports for Woodend Hospital, Turriff Cottage Hospital and Foresterhill Health centre, resulted in a net under statement of £251k. This is comprised of the following:
 - £225k overstatement of Woodend Hospital, £30k under statement of Turriff Hospital and an understatement of £446k in Foresterhill. Each property value has been adjusted for resulting in a net decrease in property value of £251k and an adjustment of £251k against the Revaluation Reserve
- Following our cash and bank testing, an adjustment has been posted in relation to £173k of unbooked payments, resulting in a decrease in the cash balance of £173k and increasing the creditor general fund corresponding balance.

Action Plan

Our recommendations for improvement

We present a summary of observations on the Board's internal control and risk management processes

Area	Observation	Management response	Priority
BCIS build cost indices	We would recommend that there continued dialogue between the DV and NHS Grampian on this issue. If build costs are not adjusted to reflect the BCIS' Grampian Location Factor, the DV should support this approach by evidencing analysis of actual build costs for projects in the Grampian area, which justify the adoption of a higher national rate.	Agreement and corresponding justification of the valuation methodology is the subject of ongoing review between NHS Grampian's Property and asset management team, our finance team and the District Valuer (DV). We will ensure that an explanation for the approach adopted for the use of BCIS factors and in the calculation of modern equivalent asset values is appropriately documented in the annual valuation report prepared by the DV. Responsible person: Property Transactions Manager and Assistant Director of Finance	
Modern Equivalent Asset (MEA)	We consider that NHS Grampian needs to have a continued ongoing dialogue with the DV on this issue as the valuations should take account of all MEA considerations including the size of a modern NHS Grampian estate	See comment above. Responsible person: Property Transactions Manager and Assistant Director of Finance	
Journal Postings	As discussed on pages 16 and 17, there are a number of actions which may be taken to reduce any inefficiencies when posting journals. Deloitte have agreed to attend the finance team's Best Practice Group to discuss the transaction insights in more detail to initiate informed discussions on potential efficiency improvements	The analysis is very useful and our Finance Best Practice Group will consider the output and implement the appropriate changes where we consider there is potential to improve the efficiency of our processes. Responsible person: Assistant Director of Finance	

Key:



High Priority



Medium Priority



Low Priority

Fraud responsibilities and representations

Responsibilities explained



Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed

- In our planning we identified the risk of fraud in other income recognition and management override of controls as a key audit risk for the Board.
- During course of our audit, we have had discussions with management and those charged with governance.
- In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

Concerns

- As set out above we have identified the risk of fraud in other income recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you



As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	Our audit fee for the year from 1 April 2014 to 31 March 2015 is £270,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
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.

Events and publications

Our events and publications to support the Board.

Governor seminars We run a regular programme of seminars for senior members of the Boards we audit. Recent areas covered have included:

- Themes from our Connected Health study, led by Karen Taylor, Director of our Centre for Health Solutions, looking at how digital technology is transforming health and social care;
- 2014/15 Reporting Requirements, focusing on areas for Governors to be aware of such as Quality Accounts changes;
- Findings from governance reviews under Monitor's "Well Led" framework; and
- "Hot topics" in the sector ahead of the year-end reporting and audit process.

The sessions provide an opportunity for senior members to share both challenges and examples of successful approaches from across their Boards. We would welcome suggestions for themes for future sessions.

Our next session will be in the autumn: we will send an invitation via the Lead Governor for the Council of Governors to nominate an attendee.

Deloitte UK Centre for 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 our 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.

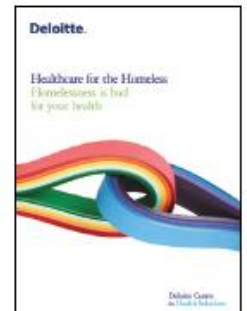
Recent reports include:

- Connected Health;
- Healthcare and Life Science Predictions 2020;
- Better care for frail older people;
- Guideposts Dementia Information Prescription, in partnership with the Guideposts Trust; and
- Working differently to provide early diagnosis.

Upcoming studies include End of Life Care, and the Cost of Compliance

For access to our latest studies and opinion pieces, please sign up to receive our weekly blog at <http://blogs.deloitte.co.uk/health/> or email centreforhealthsolutions@deloitte.co.uk:

Deloitte Centre
for Health Solutions



NHS Briefings and publications for the Board



We provide the Board through the year with publications and access to webinars and information on accounting requirements, including our "Stay Tuned Online" accounting update sessions.

We regularly publish NHS Briefings designed to disseminate our insights on topical issues within the NHS in general, and Foundation Trusts in particular. They focus on current issues facing the sector and ask questions to help readers assess if the issue is being appropriately addressed at their Trust or Board.

Briefings have covered a range of topics including Data Quality, The Dalton Review: Implications for providers, Joined up QIPP, Patient Administration Systems, Effective Boards, the Evolving Role of Governors, Narrative Reporting, Quality Accounts requirements, Human Resources, Mergers & Acquisitions in the NHS, Transforming Community Services, and the challenges of Monitor's Quality Governance framework.

We also run regular NHS Foundation Trust dinners for directors, with speakers from across the sector on key current issues. Recent events have focussed on Quality Governance and on the Dalton Review.



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