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NHS Tayside

Annual report to Those Charged with Governance and the Auditor General for Scotland

Year ended 31 March 2015

16 June 2015

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
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The Audit Committee
NHS Tayside
Maryfield House
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Dundee
DD4 7AA

16 June 2015

Ladies and Gentlemen,

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2015. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in November 2014. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 16 June 2015. At the time of writing, due to timing, we have not yet completed the subsequent events review. We will provide a verbal update on these matters at the meeting.

We look forward to discussing our report with you. Attending the meeting from PwC will be Kenny Wilson, Engagement Leader and Gillian Collin, Engagement Manager.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

Section 1. Executive summary

Introduction

We set out in this report our significant findings from our audit of NHS Tayside ("the Board") for 2014/15, together with those matters which auditing standards require us to report to you as "those charged with governance" of the Board.

We carried out our audit work in line with our 2014/15 audit plan that we presented to you on 13 November 2014. Our audit is not designed to identify all matters that may be relevant to you. Accordingly, the audit does not identify all such matters. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Framework for Our Audit

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing ('ISAs') (UK and Ireland)) and the Code of Audit Practice ('the Code').

The Code explains how external auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors. We have conducted our audit in accordance with the relevant requirements of the Code.

Respective Responsibilities of Management and Auditors

Management

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made there under. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Board and its expenditure and income for the year ended 31 March 2015; and
- preparing a Directors' Report, a Strategic Report, a Governance Statement and a Remuneration Report.

Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the year;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and

- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We are also required to review and report as necessary on other information published with the financial statements, including the directors' report, strategic report, annual governance statement and the remuneration report.

Financial Statements

As a result of our work, we proposed a number of financial and disclosure audit adjustments to the draft financial statements. There are no unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management.

We have completed our audit work and expect to be able to issue an unqualified audit opinion on 16 June 2015.

Financial performance

In 2014/15 the Board has delivered an overall surplus of £0.058m (2013/14: £0.2m) against its Revenue Resource Limit (RRL). This is after the granting of brokerage by the Scottish Government Health and Social Care Directorate (SGHSCD).

Based on a series of discussions with SGHSCD Finance colleagues commencing in November 2014, a bid for brokerage support of £8m, on the strength of a risk assessment of profit on disposal of surplus properties and a clawback based on a historical sale, was ultimately agreed by SGHSCD in March 2015. The brokerage was used to fund unbudgeted overspends in year in the areas of Treatment Time Guarantee (TTG), unscheduled care, prescribing and workforce costs including prior year payments for Enhancements During Leave (EDL) (£4.35m). A further £6.2m of brokerage was approved by SGHSCD in May 2015 as a result of an agreed audit adjustment relating to the timing of the disposal of Ashludie Hospital and recognition of associated income (see narrative in 'Other Matters' section). The total brokerage obtained by the Board for 2014/15, therefore, was £14.2m (2013/14: £2.85m), which enabled the Board to achieve an overall surplus of £0.058m.

The Board's capital expenditure for 2014/15 totalled £13.868m. A small surplus of £0.003m was achieved against the Core Capital Resource Limit (CRL).

The Board has met its savings target of £22m. In doing so, the board met the Scottish Government's 3% target, delivering £22.006m of efficiency savings to March 2015.

Strategic Financial Plan 2015/16

The Board has budgeted to achieve a break even position in 2015/16. In order to achieve this, efficiency savings of £27m must be delivered which forms 4.1% of the general allocation for the year (see page 13). Efficiency plans are in place to identify required savings, however, as at April 2015, £5.1m of savings had yet to be identified. Given the scale of the challenge, the Board embarked on an enhanced approach to identification of savings and the 5.1m of savings still to be identified is a significant improvement on the position in prior years.

The terms of the brokerage relating to 2014/15 are such that the Board must repay in full the £14.2m in financial year 2015/16, with additional amounts outstanding from 2013/14. It is planned that this will be achieved through the sale of assets declared as surplus, and via clawback relating to a historic property sale.

NHS Tayside has required to seek brokerage from SGHSCD to achieve a breakeven position for each of the last three financial years. Given this trend, coupled with the need to identify further savings and the reliance on property disposals to repay brokerage, there is a risk that the financial plan for 2015/16 will not be achieved.

Other Matters

Upon conducting our audit work we have noted two matters of significance which should be brought to members' attention. These are in relation to the accounting treatment of the disposal of Ashludie hospital and the Board's requirements for brokerage from the Scottish Government.

As part of the Board's ongoing property disposal strategy to realise proceeds from properties declared as surplus, the Board, working in partnership with Scottish Futures Trust, developed a new process involving the development of master plans for the sites using experts to carry out surveys, consultations and discussions with Local Authority planners. This was intended to accelerate the property disposal and reduce the risks associated with planning permission applications. Ashludie hospital was marketed for sale in financial year 2014/15. On 19th December 2014 NHS Tayside accepted an offer to sell, to Miller Homes Limited, the site at the former Ashludie Hospital, Monifieth and the IT Centre, Monifeith subject to a number of suspensive conditions. The primary condition set out within the offer is in relation to the successful application of planning permission from Angus Council to permit the construction of residential housing on the site. As at 31 March 2015 planning permission for the site had not yet been granted.

The Board had recognised the disposal and associated income in the 2014/15 accounts, as the judgement of NHS Tayside management was that the completion of the transaction was low risk, as (in their view) all major barriers to the sale had been overcome. However, following review of the contract and relevant accounting standards our view is that this treatment is not appropriate as at 31 March not all the material sale contract conditions has been met. As a consequence, the Board has posted an adjustment to reverse the disposal of the asset and the recognition of gain on disposal of £6.2m. Our full assessment of the disposal and associated treatment is set out at Section 2. As a result of this adjustment, the Board obtained a further £6.2m of brokerage from SGHSCD to deliver a surplus in the year.

Financial year 2014/15 is the third consecutive year in which the Board has received brokerage from the Scottish Government, and represents the largest sum received to date. The mechanism of repayment of brokerage for each year was agreed as proceeds from the sale of surplus assets. The Board would benefit from a review of its annual budget setting process to ensure it is sufficiently robust and achievable. Further analysis of the Board's financial performance is set out at Section 3.

Please note that copies of the final version of this report will be sent to the Audit Scotland in accordance with their requirements.

We thank the management and staff of the Board for their co-operation and assistance during the course of our work. The draft financial statements received from management were of a good standard resulting in minimal disclosure adjustments.

Section 2: Significant audit and accounting matters

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Matter arising	Audit response
Fraud and management override of controls **ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.** **In any organisation, management may be in a position to override the financial controls that you have in place. The current economic conditions may also increase fraud risk.**	We performed procedures to: • test the appropriateness of journal entries; • review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • bring an element of 'unpredictability' into our work. We did not identify any issues to report to you as a result of our work.

Matter arising	Audit response
Recognition of income and expenditure (Hospital and Community income and expenditure, Other Non-Clinical Services expenditure) **Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Board could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.** Due to the majority of revenue being received directly from Scottish Government we extend this presumption to the recognition of expenditure in the NHS.	We obtained an understanding of key revenue and expenditure controls. We have performed controls testing over the purchasing and payables cycle. We evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (FReM). We performed detailed testing of revenue and expenditure transactions, focussing on the areas of greatest risk. We performed a combination of sampling and target testing of revenue and expenditure transactions to ensure that we obtained comfort over the different revenue and expenditure accounts shown within the notes to the accounts. We reviewed significant accounting estimates and judgements for indicators of management bias. We identified one audit adjustment as a result of this work relating to the disposal of Ashludie Hospital (see narrative on page 6).

Materiality

We have conducted our work in accordance with the materiality levels detailed below. We have applied a de-minimus level of £250,000 which was agreed with the Audit Committee upon submission of our annual audit plan.

	£
Overall materiality – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments	£9,894,920
Performance materiality - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	£7,368,690
De-minimus posting level - Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a 'de-minimus' or 'clearly trifling' amount	£250,000

Accounting issues

Disposal of fixed assets

We have identified one accounting matter during the course of our work that we wish to draw to your attention relating to the disposal of Ashludie Hospital and the Monifieth IT Centre.

As part of NHS Tayside's ongoing property disposal strategy to realise proceeds from properties declared as surplus, Ashludie hospital was marketed for sale in financial year 2014/15. On 9th December 2014 Miller Homes Ltd made a written offer to purchase the site at the former Ashludie Hospital, Monifieth and IT Centre, Monifieth, conditional on planning permission being granted. The offer sets out a purchase price of £7.5m, which may be reduced to account for abnormals incurred on the site. Taking into account the present Net Book Value (NBV) of the asset within the accounts, the sale would result in a gain for the Board of £6.2m after allowances for abnormals.

On 19th December 2014 the Board accepted the offer, therefore legally binding both parties to sell/buy the property conditional on a number suspensive conditions. The primary condition set out within the offer is in relation to the successful application of planning permission to Angus Council to permit the construction of residential housing on the site. As at 31 March 2015 planning permission for the site had not yet been granted.

We performed a review of the offer. Whilst the Board has taken steps to reduce the risk of planning permission not being granted, we concluded that, at the year end date, the requisite conditions to finalise the agreement had not been fulfilled and the ownership had therefore not transferred to Miller Homes Ltd.

As set out in *IAS 16 Property, Plant and Equipment* and *IAS 18 Revenue* the disposal of any item of property, plant and equipment is recognised on the date on which:

- The significant risks and rewards of ownership are transferred. For property, plant and equipment this is usually identified at which the legal title is transferred, or possession is passed to the buyer;
- The entity no longer has managerial control of the asset;
- The amount of revenue can be measured reliably;
- The costs to perform the transaction can be measured reliably; and
- There are no specific contractual obligations outstanding which must be met prior to the sale taking place.

The Board had recognised the disposal and associated income in the 2014/15 accounts, however in accordance with IAS 16 and IAS 18 the risks and rewards of ownership have not yet transferred to Miller Homes Ltd and therefore we have concluded that it is not appropriate for the Board recognise the income associated with this disposal in the current year. As a consequence, the Board has posted an adjustment to reverse the disposal of the asset and the recognition of gain on disposal of £6.2m.

Whilst it is possible that planning permission may be approved prior to the annual accounts signing date, under *IAS 10 Events after the reporting period and financial commitments* this is a non-adjusting event and would still not be recognised in the year end annual accounts.

Clinical Negligence Provision

In January 2015 the NHSScotland Technical Accounting Group (TAG) issued supplementary guidance to the NHS Manual of Accounts which required that all Boards include an additional Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) provision within the 2014/15 financial statements. This has been required to account for the Board's contributions to the scheme in future years, which had not previously been accounted for.

In accordance with *IAS 8 Accounting Policies, Changes in Estimates and Errors*, the additional provision requires a restatement of prior year balances. We can confirm that the Board has appropriately applied the guidance issued by TAG, and has recognised a second CNORIS provision of £22.792m in 2014/15, restating the prior year balances appropriately.

Enhancements During Leave (EDL) accrual

NHS Circular PCS (AFC) 2008/12 – Changes to the way staff are paid during annual leave was issued in 2008 and highlighted that boards were required to implement the new UK agreement on unsocial hours payments from 1 April 2008. Part of that agreement is that staff must be paid "as if at work" during periods of annual leave, such payments are referred to as Enhancements During Leave (EDL). It was identified by Management during the year that the requirements of the circular had not been fully complied with and therefore required to be remedied.

As a result of the remedial action taken by Management, at the end of February 2015 approximately 1,700 staff had received payments totalling £1.66m relating to enhancement due for part of 2010/11 and for full years 2011/12, 2012/13 and 2013/14. Payments relating to 2008/09, 2009/10 and the first part of 2010/11 have not been made as data was not easily available. The Board has therefore, within the 2014/15 financial statements, included an accrual to capture the amounts not yet paid but due.

The total expense recognised in 2014/15 in relation to EDL is £4.35m, £2.69m of which relates to the accrual for payments not yet made. The accrual has been calculated based on the costs incurred to date adjusted for the likelihood of earlier claims being made and the compliance records of each area within the Board.

In April 2015 the Board's Internal Audit Function issued a draft report highlighting a number of findings in relation to the accuracy of the data used to arrive at the payments due to date and the accrual for further payments due, along with other wider issues relating the project management of the work conducted to address the NHS Circular. A number of instances were identified in which the annual leave data within Scottish Standard Time System (SSTS) was found to be inaccurate.

Whilst the total expense incurred in year is below our assigned level of performance materiality, given the findings raised by Internal Audit we have assessed the reasonableness of the assumptions within the accrual. Whilst Internal Audit have noted exceptions in the underlying data, Management have assessed that the errors are not sufficient to result in a material error within the accrual. Given that the overall value of the accrual is £2.69m, we agree this is a reasonable judgement.

In financial year 2015/16 Management should ensure that EDL payments are not made until each claim has been agreed to both the SSTS system and underlying supporting documentation, where appropriate, to ensure that payments made are accurate. Management should continue to implement the audit recommendations made by Internal Audit in relation to the project management arrangements.

Action 1

Misstatements and significant audit adjustments

We report to you all misstatements that we have found during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements.

There are no unadjusted misstatements at the conclusion of our audit.

We identified one significant adjustment, which has been fully adjusted in the final audited financial statements. The adjustment relates to the disposal of Ashludie Hospital and Monifieth IT Centre, which the Board had recognised as a sale in 2014/15, resulting in the recognition of a £6.2m gain. In accordance with our commentary set out above, this treatment is not consistent with the accounting standards as the risks and rewards have not yet transferred to the third party.

This adjustment has resulted in the need for a further £6.2m of brokerage from SGHSCD (in addition to the £8m of brokerage agreed in March 2015), which has allowed the board to maintain its reported surplus position of £0.058m.

Qualitative aspects of accounting practices

Improving the quality of NHS annual report and accounts

In December 2014 Audit Scotland published good practice note *'Improving the quality of NHS annual report and accounts'*. The overarching objective of the publication was to help all boards improve their accounts presentation. Audit Scotland identified the following main causes of poor presentation by NHS Boards as follows:

- Over-reliance on the template provided by the Scottish Government;
- Inclusion of irrelevant disclosures; and
- A lack of attention to detail in preparation of the accounts.

As part of our audit work we have completed the good practice checklist within the publication and have no matters to bring to your attention.

Financial statement disclosures

We have also reviewed, and tested, the material disclosures in the financial statements. We identified no significant issues as part of this work.

Governance Statement

The Financial Reporting Manual requires Chief Executives to sign a Governance Statement which covers all controls including financial, operational, compliance and the management of risk. The Scottish Government Health and Social Care Directorate (SGHSCD) has issued *Guidance on Governance Statements 2014/15* to help Chief Executives prepare their Board's Governance Statements.

We reviewed the governance statement and considered the following:

- Compliance with the required elements of the pro-forma statement developed by SGHSCD; and
- Consistency with the remainder of information presented within the annual accounts and our overarching understanding of the entity.

Based on our normal audit procedures, we do not disagree with the disclosures contained in the Statement.

Section 3. Financial performance

Financial targets

The Board's performance against its three financial targets for financial year 2014/15 is set out below:

Table 2: Financial targets summary 2014/15

	Limit as agreed by SGHSCD £ million	Actual Outturn £ million	Underspend/ (Overspend) £ million
Revenue Resource Limit (RRL)	790.447 (allocation including brokerage of £14.2m)	790.389	Underspend: 0.058
Capital Resource Limit (CRL)	13.871	13.868	0.003
Cash Requirement	812.103	812.103	-

Prior to receipt of brokerage the Board presents an overall overspend position of £14.142m, key areas of expenditure which led to this position are outlined below:

- Perth and Kinross CHP overspend of £2.28m, largely in relation to increased prescribing and general medical costs.
- Surgery and Theatres Group overspend of £3.693m, largely attributable to continued costs associated with the delivery of Treatment Time Guarantee and Unscheduled Care costs. The overspend in this area has reduced since 2013/14 (£4.8m), in part due to the Theatres Optimisation Project which was launched during 2014/15.
- Medical Group overspend of £2.159m, due to the increased level of activity across the group, in particular in relation to increased prescribing costs and workforce pressures.
- The Board had budgeted to raise £4m profit from disposal of fixed assets in the year, however this had not been realised at the year end.

Upon incorporation of brokerage from SGHSCD the net effect against RRL and CRL as shown in the table above is an overall underspend position of £0.061m (2013/14 £0.2m).

Financial flexibility (brokerage)

In 2014/15 the Board has received £14.2m of brokerage from the Scottish Government. Brokerage was allocated to help the Board meet financial commitments due as a result of Enhancements During Leave (EDL) payments and increased costs as highlighted above. In March 2015 the Board had agreed brokerage for 2014/15 at a level of £8m, however following the audit adjustment to de-recognise the sale of Ashludie Hospital and Monifieth IT Centre, an additional £6.2m of brokerage was required to reach the Board's final balanced outturn for the year. The additional brokerage was obtained in May 2015.

2014/15 represents the third consecutive year in which the Board has received brokerage. Table 1 below sets out the brokerage obtained by the Board to date and the repayment arrangements in place.

Table 1: Brokerage summary 2014/15

Year	Brokerage Received £million	Details of Brokerage received	Repayment details
2014/15	14.2	Brokerage was allocated to help the Board meet financial commitments due as a result of Enhancements During Leave (EDL) payments and increased costs resulting from Treatment Time Guarantee, prescribing and workforce pressures. Additional brokerage, above the planned £8m year end, was required as the Board did not realise proceeds from property disposals as planned.	Full amount due for repayment in 2015/16 raised through proceeds from sale of surplus properties.
2013/14	2.85	Received on the strength of planning delays associated with four former healthcare sites declared as surplus.	Repayment of £2.05m made in 2014/15. Remaining £0.8m to be repaid in 2015/16.
2012/13	2.25	Received to support deferred income for sales made in the year and to cover the impairment which was charged in the year.	£0.25m repaid in 2013/14, the balance of £2m in 2014/15.

The brokerage arrangement agreed with the SGHSCD has been appropriately disclosed in the Directors' Report and Governance Statement within the 2014/15 financial statements.

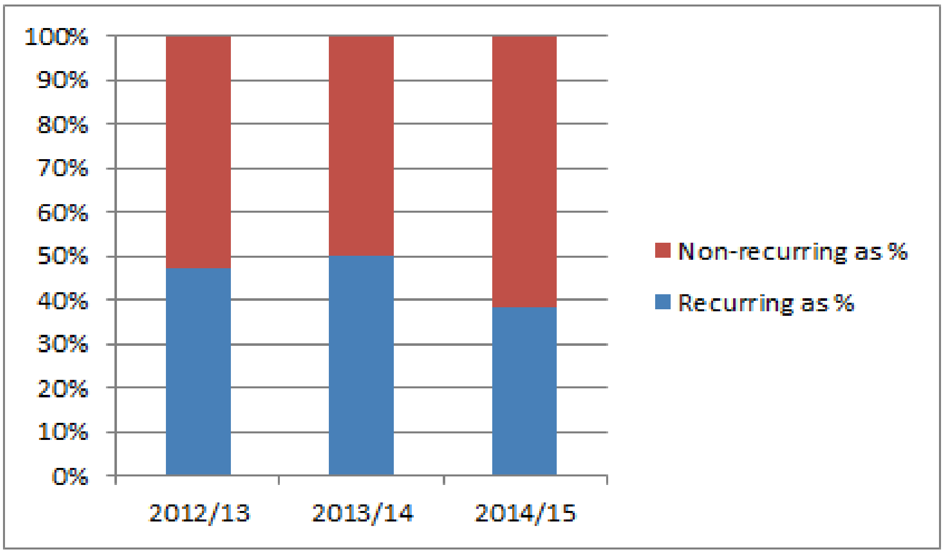
Efficiency savings

The Board has achieved £22.006m of efficiency savings in 2014/15 against a target of £19.350m (3%) per the NHS Scotland Efficient Government efficiency savings target. The sources through which the Board has achieved these efficiencies are set out below:

Table 3: Efficiency savings 2014/15

Source	Savings £ million	% of total
Service Productivity	7.771	35.3
Drugs and Prescribing	3.662	16.6
Procurement	1.725	7.8
Workforce	6.681	30.4
Non-Clinical Support Services	1.597	7.3
Estates and Facilities	0.57	2.6
Total reported	**22.006**	**100**

Of the £22.006m savings achieved, £13.5m (61%) was attributable to non-recurring savings, compared to 50% in 2014/15. The graph below sets out the percentage of savings classified as recurring and non-recurring over the prior three years:



Financial sustainability

In recent years NHS Boards in Scotland have faced significant challenges in delivering healthcare services amidst continued financial pressures. Audit Scotland's publication '*NHS in Scotland 2013/14*' recognises the difficulties caused by the focus on meeting annual targets and the extent to which this focus can hinder the longer term financial planning process. The overarching recommendation for NHS Boards is in relation to a strengthened approach to long term financial planning, considering in detail the resources required to implement service changes.

In light of this, financial sustainability has become a key matter for consideration by Boards and it is vital that consideration of longer term financial plans has taken place.

The Financial Plan for 2015/16 identifies the following key areas of income and expenditure, recurring and non-recurring:

Table 4: 2015/16 Financial Plan

NHS Tayside	2015/16 Projected £ million
Recurring income	789.4
Recurring expenditure	811.1
Recurring savings	16.2
Underlying recurring (deficit)/surplus	**(5.500)**
Non-recurring income	28.431
Non-recurring expenditure	33.731
Non-recurring savings	10.8
Non-recurring (deficit)/surplus	**5.500**
Financial (deficit)/surplus	**0**
Recurring deficit as percentage of recurring income	**0.70%**

As reported in NHS Tayside's Strategic Financial Plan 2015/16 to 2019/20, submitted to the Finance and Resources Committee in April 2015, £21.9m of the £27m efficiency target for 2015/16 was risk assessed as deliverable, with £11.6 m considered as low risk. Savings are expected to be delivered from efficiencies in areas including drugs and prescribing, procurement and workforce. As at April 2015, £5.1m of required efficiency savings were classified as "Unidentified".

The Board faces significant challenges in delivering a balanced financial position in 2015/16. ***The Board should ensure a project is undertaken to review the effectiveness of their annual budgeting process considering the following factor:***

- ***Departments with continued overspend positions and the need for contingencies;***
- ***Incorporation of changes in demographics and demand;***
- ***Consideration of significant planned service changes and projects;***
- ***Progress achieving required savings;***
- ***Engagement with service areas to ensure budgets are realistic; and***
- ***The need for additional scrutiny and challenge over the adequacy of the budget.***

The Board should continue to conduct exercises to understand the underlying reasons for its key overspends, taking action as appropriate to address these.

Action 2

2016/17 and beyond

During 2014/15, the Strategic Financial plan for 2016/17 to 2019/2020 was written. Each year of the plan shows a break even position. This includes a contingency for £1.5m every year. Detailed operational budgets have been written to link to the strategic financial plan and the local delivery plan, alongside integrating with the Health and Social Care joint boards.

Over the following 5 years, one of the key areas of increased expenditure is forecast to be Acute and Primary Care Services. This increase is likely to be met by an increase in the General Allocation for Hospital and Community Health Services.

Key financial pressures will relate to the increasing efficiency savings required to meet national targets, and ensure that the Board does not require further brokerage. This is enhanced by the additional costs which will be incurred in relation to changes in how public pension schemes are valued, as well as changes in the National Insurance allowances for employees who contract out of the state pension. This accounts for 3.4% of relevant employees earnings, estimated to cost the Board approximately £7.8m in 2016/17.

The main areas in which capital expenditure will be incurred will be around funding the critical care development in Ninewells Hospital from 2016/17 onwards and essential estate infrastructure investment in the Board's main acute hospital sites. It is expected that this will be made available to the Board via additional funding, as well as the expectation that the Board can retain proceeds of the sales of certain fixed assets.

Savings are forecast to be made within Service Productivity and Workforce efficiencies. Reducing the costs associated with these is in line with the overall work which is being performed to increase the efficiency within the Board – in particular by focussing on where there are areas of overspend and how these can be reduced.

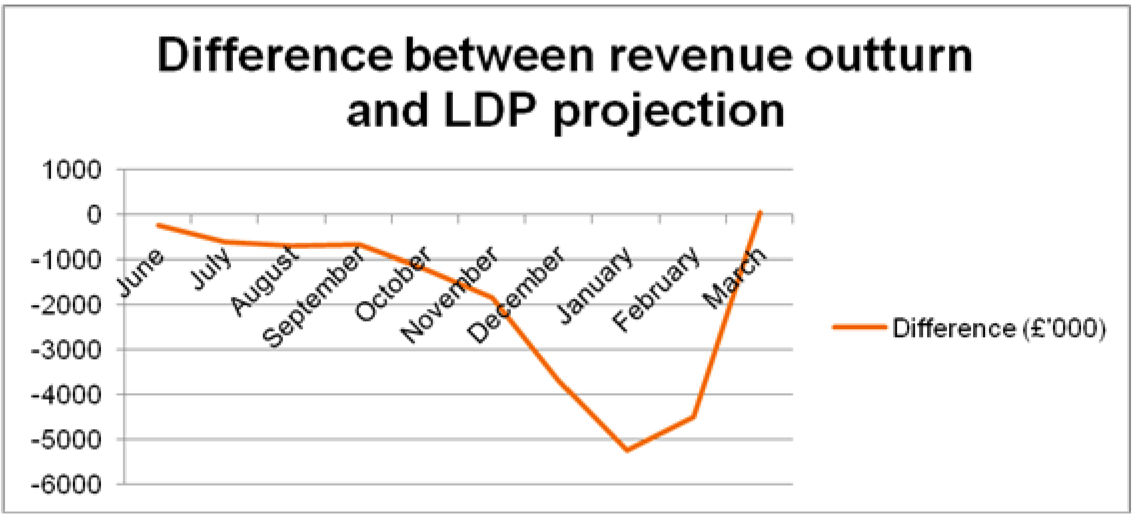
Financial planning and budgetary control

In order to support the balance between achieving targets in year and longer term financial planning it is vital that Board have in place a sound system of financial planning and budgetary control.

For NHS Tayside, this is highlighted via the requirement for brokerage for three consecutive years.

It was noted through the testing of the process relating to Business Performance Reviews that the Board has in place a system by which they can monitor budgets and spends against the budgets throughout the directorates within the Board. This close monitoring has led to a mechanism being in place through which the Board can assess the areas in an overspend position, or those who are managing their budgets more effectively. This knowledge can be used to implement programmes such as the Theatres Optimisation to ensure that each directorate is operating in an efficient manner, and that spending is focussed towards areas of need.

We performed an analysis of the month-by-month budget vs income and expenditure for NHS Tayside to gain an understanding of the relationship between the budget and actual costs incurred in the year.



The above graph illustrates that the Board has consistently struggled to achieve a break-even position during 2014/15, culminating in a period of significant overspends between December and March. The Board's plans to repay brokerage received over the past three financial years have centred on the sale of fixed assets. Whilst market conditions are perceived to be improving, a number of properties remain unsold further adding to the pressures facing the Board.

Whilst we appreciate that projects have been undertaken in the current year to understand underlying issues that may lead to overspends in key departments, such as the Theatres Optimisation and prescribing review projects, it is clear that it continues to remain difficult to deliver services within planned budgets. The Board should, therefore, review the effectiveness of its budget setting process (see Action 2).

Section 4. Governance and internal control

Governance structure

The governance structure of the Board remains the same as in prior years. Each of the committees provide an oversight of their functions, and report information to the Board on at least an annual basis. Each committee has a minimum number of Non-Executive Directors as members.

Within the Board's Code of Corporate Governance, each committee has a prescribed purpose, remit, composition and reporting timetable. We have reviewed the operation of governance arrangements in 2014/15 and noted no variances from that which is prescribed in the Code.

During 2015/16, both the Director of Finance and Assistant Director of Finance (Governance and Corporate Finance) are due to retire.

We consider that the governance arrangements in place are appropriate.

System of internal control

The Chief Executive Officer in conjunction with management and the Audit Committee is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

We identified two minor control weaknesses during our audit work, which were reported to the audit committee on 19 March 2015. No further control weaknesses have been identified to bring to your attention.

Based on our work performed we consider the systems of internal control to be appropriate.

Risk management

Per the Governance Framework, the Audit Committee have responsibility for oversight at the board level. Reporting to the audit committee is a Strategic Management Group and an Operational Risk/Health and Safety Management Group. Each of the local areas (Dundee, Perth, Kinross and Angus) also has a local Risk Management Group.

NHS Tayside use the risk management software "Datix", to aid the identification, recording, assessment and reporting of both operational and strategic risks. There are specific risk management groups responsible for the review of risk reports; however each sub-committee within the board also performs reviews in relation to their prescribed areas.

Performance management

NHS Scotland has set a series of national HEAT targets and timescales which all Boards are expected to work towards. The HEAT targets are grouped into four priority areas:

- **H**ealth Improvement for the people of Scotland – improving life expectancy and health life expectancy
- **E**fficiency and Governance Improvements – continually improve the efficiency and effectiveness of the NHS
- **A**ccess to Services – recognising patients' need for quicker and easier use of the NHS services
- **T**reatment appropriate to Individuals - ensure patients receive high quality services that meet their needs

  It should be noted that the Board has included HEAT targets within their Local Delivery Plan (LDP) for 2015/16 as a part of their key standards. There are 19 standards within the Plan – of which 8 are HEAT targets which remain as targets for the coming year.

Performance against key performance indicators, as reported by the Board as at May 2015, is summarised on the following page.

Target	Status
At least 80% of pregnant women in each SIMD quintile will have booked for antenatal care by the 12th week of gestation by march 2015	Local data shows performance of 94% at March 2015, with a level above 90% throughout 2014/15
Increase the proportion of people diagnosed and treated in the first stage of breast, colorectal and lung cancer by 25% by 2014/15.	First 21 Months of this project to September 2014 showed that 23.1% of people were diagnosed and treated in the first stages of breast, colorectal and lung cancer. The most recent data is from September 2014.
Deliver agreed cumulative smoking quits (at 12 weeks post quit) within the 40% most-deprived quintiles over the one year ending March 2015.	Performance has been noted as below the planned trajectory or the year. This is attributed to the increased use of e-cigarettes. All NHS Scotland Boards are below the planned trajectories at the September 2014 quarter end.
90% of patients referred for Child & Adolescent Mental Health Services (CAMHS) are to start treatment within 18 weeks of referral from December 2014.	It is expected that this will be met in July/August 2015, as the planned trajectories for this were not included in the 2014/15 Local Delivery Plan. .
90% of patients referred for Psychological Therapies are to start treatment within 18 weeks of referral from December 2014.	Target has been met as most recent performance shows 97.4% of patients begin treatment within 18 months
Eligible patients will commence IVF treatment within 12 months of decision to treat by March 2015.	100% success rate has been met.
Reduce the rate of emergency inpatient bed days for people aged 75 and over per 1,000 population, by at least 12% between 2009/10 and 2014/15.	As at the last assessment (October 2014), a reduction of 9.7% has been made.
No people will wait more than 14 days to be discharged from hospital into a more appropriate care setting, once treatment is complete from April 2015 census.	As at January 2015, the target was missed by 10 patients. Additional funding has been provided to assist NHS Boards in tackling delayed discharges. This will help to reduce unscheduled care costs.
By 2014/15 NHS Boards staphylococcus aureus *bacteriamia (including MRSA) cases are 0.24 or less per 1,000 acute occupied bed days.*	This target was not met at the March validated performance position.
By 2014/15 NHS Boards rate of Clostridium difficile *infections in patients aged 15 and over is 0.32 cases or less per 1,000 total occupied bed days.*	As at March 2015, performance was 0.33 cases per the last position in December 2014.
NHS Scotland to reduce CO2 emissions from hospital sites based on a national average year-on-year reduction of 3% each year, up to and including 2014/15 (measured in tonnes) NHS Scotland to reduce energy consumption from hospital sites based on a national average year-on-year reduction of 1% each year, up to and including 2014/15 (measured in GJ – Gigajoules)	Energy savings have not yet been met, however significant progress has been made to date.

The performance information above has been reported by the Board as at May 2015 and has not been subject to audit.

Internal Audit

The key role of Internal Audit is to provide Management comfort over the Board's processes, procedures and key activities. NHS Tayside uses Fife, Tayside and Forth Valley Audit and Management Services to provide this assurance to the Board.

Whilst we do not place formal reliance on the work of internal auditors we have considered the extent of work performed by Internal Audit, reviewing and evaluating the outputs of key financial reviews undertaken in the year. This assisted in our audit planning procedures, and in identifying significant risks to the financial statements.

Based on audit work performed, we do not consider the Internal Audit function to be inappropriate for the needs of the Board.

Health and social care integration

The Public Bodies (Joint Working) (Scotland) Act 2014 was passed in April 2014 as part of the Scottish Government's agenda to drive improvement in the provision of health and social care services. The act details the integration models available to Health Boards and Local Authorities in developing their integration strategy as well as required documentation and timescales for delivery of integration schemes.

Since October 2013, the Board has worked with its Local Authority counterparts to establish three Integration Joint Boards (IJBs):

- Angus Health and Social Care Integration Joint Shadow Board
- Dundee Health and Social Care Shadow Integration Board
- Perth and Kinross Health and Social Care Integration Pathfinder Board.

The integration schemes between the Board and the Local Authorities were submitted to the Scottish Government by 31 March 2015 as required.

Compensation and Confidentiality Agreements

In the year, the Board committed to pay 5 exit packages with a total value of £175,840 (2013/14: £109,000). Three cases were in relation to the settlement of employment tribunals and two paid in the year were in relation to settlement agreements. We reviewed the approval process for each settlement and confirmed that all had been appropriately approved by the Board's remuneration committee in accordance with its local procedures.

Scottish Government issued revised procedures for settlements agreements, which was effective from 1 April 2014. The procedures require that a formal business case be submitted to the Scottish Government for review and approval before any agreement can be entered into. We reviewed the process followed for each settlement paid in the year. One settlement agreement paid in the year was agreed by NHS Tayside's Remuneration Committee in February 2014 and was, therefore, not subject to the revised procedures. The other settlement agreement followed the required procedures.

Medical workforce

Medical workforce shortages across the Health sector in Scotland are leading to an increased use of medical locums, having a significant impact on the costs associated with staffing certain specialties. During 2014/15 NHS Tayside spent £5.297m on the use of medical locums for the following reasons:

- Cover for specialist posts, where there are specific skills required not met by the permanent workforce;
- To comply with rota regulations for training-grade staff;
- To assist in meeting national performance targets; and
- To cover for low staff numbers.

Costs of medical locums has increased over the past five years by 122% from £2.293m in 2010/11 to £5.297m in 2014/15. In response to the increased reliance on medical locums the Board has undertaken the following key actions:

- Reviewing gaps in medical staffing by service management, including at general manager and associate director level;
- Considering more efficient use of staff as an alternative use of medical locums, for example additional PAs, EPAs and improved use of SPA time;
- Increasing permanent staff levels as part of a process to improve the medical structures and ensuring that structures are practical; and
- Increase the use of salaried doctors and NHS locums rather than using external agencies.

Whilst each Board can take short term actions to reduce this reliance, in the longer term a national strategy is required to develop and maintain a sustainable medical workforce.

Section 5. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors and management are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

National Fraud Initiative (NFI)

The Board participates in the National Fraud Initiative (NFI). The NFI system identified 7180 matches for the 2014/15 year and management have investigated 785 of these which were recommended to be investigated. In accordance with our responsibilities as your appointed auditor, we have completed the NFI questionnaire and noted the following key outcomes:

- NHS Tayside have a clear management structure in place to manage NFI matches, with delegation made to staff members to investigate differences to allow the key contact to monitor matches;
- The Board are prompt to respond to matches;
- The Board's Audit Committee receive updates on NFI progress, with reports made on potential frauds; and
- There have been no control weaknesses identified as a result of NFI matches.

Prevention and detection of fraud and corruption

Based on audit work performed we consider that the controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Board. The Board have in place an appropriate code of conduct, fraud response plan and whistleblowing policy.

NHS Tayside take action to perform follow up work on any matches identified from the NFI scheme mentioned above, as well as frauds reported using other methods.

NHS Tayside have in place a whistleblowing policy, last updated in April 2013 with a review due to occur in April 2015. Therefore, the current whistleblowing policy has been in place for the entire period under review. Any potential frauds which are identified are reported and monitored using the counter fraud service. The Fraud Officer liaises directly with internal audit should there be any findings from their work which may indicate a fraud has occurred.

Section 6. Independence

Independence and objectivity

There are no matters which we perceive may impact our independence and objectivity of the audit team

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Board within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired

Appendix 1: Action plan

Finding	Management response
1) EDL Payments In financial year 2015/16 Management should ensure that EDL payments are not made until each claim has been agreed to both the SSTS system and underlying supporting documentation, where appropriate, to ensure that payments made are accurate. Management should continue to implement the audit recommendations made by Internal Audit in relation to the project management arrangements.	Agreed. Revised processes are being implemented to ensure that EDL payments are accurate. Project management arrangements are also being strengthened. Action: Director of Human Resources Target completion: 31 August 2015
2) Review of budget setting process The Board should ensure a project is undertaken to review the effectiveness of their annual budgeting process considering the following factors: • Departments with continued overspend positions and the need for contingencies; • Incorporation of changes in demographics and demand; • Consideration of significant planned service changes and projects; • Achieving required savings; • Engagement with service areas to ensure budgets are realistic; and • The need for additional scrutiny and challenge over the adequacy of the budget. The Board should continue to conduct exercises to understand the underlying reasons for its key overspends, taking action as appropriate to address these.	The review of effectiveness is under way through engagement with service managers and staff and will be enhanced through the alignment of budgets to the Clinical Strategy, Workforce Plan and Property Strategy. In order to achieve financial sustainability in the face of future challenges it will be necessary to move away from incremental investment and reduce reliance on non-recurring savings. The focus will be on service redesign and prioritisation to achieve financial and other targets. Action: Director of Finance: Target completion: 30 September 2015

Appendix 2: Follow up on prior year actions

Finding	2014/15 Updated Position
1. Board share of Ninewells site NHS Tayside are currently holding c. 70% of the total value of the shared parts of Ninewells Hospital site on their balance sheet, assessed as the proportion of the asset from which the Board can achieve benefits. Whilst this is lower than the 74% original capital injected, it is reasonable that over the period of ownership the share of value which the Board utilises has changed. However, management have not reviewed this estimate in recent years and are applying historic percentages to assess the proportion of the asset currently utilised by them. Whilst there is no indication that the estimates currently in use are incorrect, this must be reviewed on an annual basis to ensure it remains.	A project was undertaken in 2014/15 to assess the share of the Ninewells site owned by the Board. This has been applied to the asset register appropriately and incorporated into the 2014/15 financial statements. **Complete.**
2. Related Party Transactions Process At present the process for identifying related party transactions involves a high level review by management of the register of board members' interests to consider any transactions they are aware that have taken place. However, there is a risk that this approach may not ensure that all transactions are captured. In addition, management have not assigned an approach to determining what transactions they consider material, in the context of the board and the relevant related party, and therefore which they require to disclose.	Management have implemented a formal procedure by which they identify related parties and perform a search within income and expenditure to identify transactions which have taken place. This process has been followed successfully in the preparation of the 2014/15 financial statements. **Complete.**
3. Clinical Negligence Provision Whilst our review of the provision for claimants' legal costs has concluded that the 20% applied in the current year remains appropriate, the Board should perform an annual review of this approach in order to ensure that the provision accurately reflects such costs in future years.	A review of the provision has been performed by Management. It was found that 20% remains appropriate based on a review of actual legal costs as a percentage of each claim over the prior 12 months. **Complete.**

Finding	2014/15 Updated Position
4. Segregation of duties in PECOS We noted one instance of a sample of 37 in which the same individual raised and authorised an order within the PECOS system. Upon investigation it was confirmed that this was due to the fact that the individual was at the top of their authorisation hierarchy within the system and this had been picked by management's own monthly KPI reviews. Management have further investigated the matter and confirmed that this issue is restricted to a single department. A request has been submitted to IT to reconfigure the PECOS approval route to ensure that secondary authorisation is required even when an individual is at the top of their authorisation hierarchy	The PECOS approval route was updated following the reporting of the exception to Management. However upon testing of controls in the current year we identified an additional instance in which the same weakness occurred. This was reported to Management and the Audit Committee in the Interim Management Letter, and a course of action agreed. **In progress.**