

Final report to the Board and the Auditor General for Scotland on the 2015/16 audit



28 June 2016

the
Distinctive
audit

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Our final report

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A reminder of our audit plan:

- Materiality: £9,020k (2014/15: £8,600k). This has increased slightly from our projected £8,880k in our planning report.
- Performance materiality: £6,314k (2014/15: £5,692k).
- Threshold for reporting misstatements: £90k (2014/15: £81k).
- Significant risks over achievement of core expenditure resource limits, clinical and medical negligence provisions, management override of controls, other income recognition and valuation of property assets.
- We have not identified any additional significant risk areas since our plan was issued.
- We have taken a controls reliance approach for payroll and expenditure using the work of internal audit.
- There have been no changes to our audit plan presented to you in December 2015.



Partner introduction

Partner introduction

Overview of responsibilities

I have pleasure in presenting our final report to the Board for the 2015/16 audit.

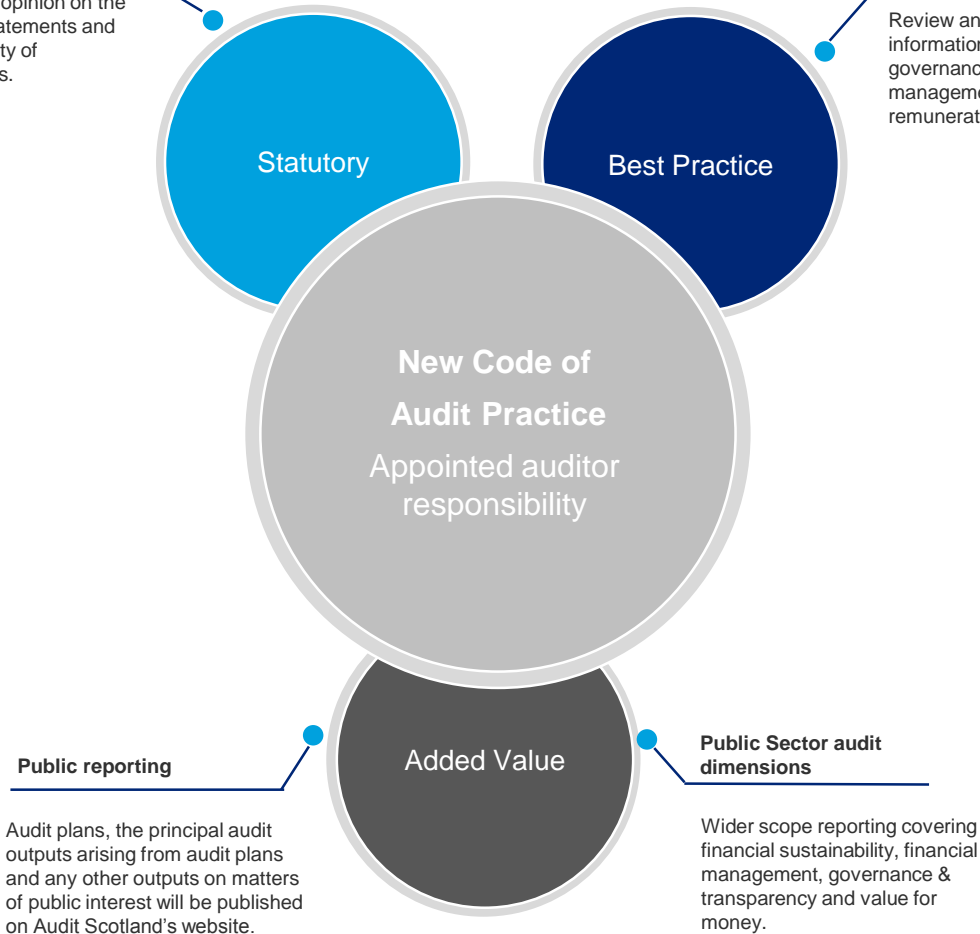
As set out in our plan presented to the Audit Committee in December 2015, we have early adopted the requirements of the new Code of Audit Practice which comes into force for the 2016/17 audits. A reminder of the requirements is set out below.

Financial Statements

Provide an opinion on the financial statements and the regularity of transactions.

Annual Reports

Review and report on the other information such as annual governance statement, management commentaries, remuneration reports.



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

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)

Financial statement audit and annual report

Financial statement audit

Conclusions from our testing

- The key judgements and areas of audit focus 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.
- A summary of our work on the significant financial statements risks is provided in the dashboard on page 6.
- NHS Grampian were notified, post year-end, of a clinical negligence claim with an estimated value of £7.5 million. The Board has disclosed this as a post balance sheet event in note 28 of the financial statements and has not adjusted the financial statements as the overall net impact to the Board is nil. An uncorrected misstatement has been noted in **Appendix 1** to reflect the accounting treatment that would be required under International Accounting Standard (IAS) 10 (Events After the Reporting Period). We will obtain written representations from the Board confirming that after considering all uncorrected items, in the context of the financial statements taken as a whole, no adjustments are required.
- We have also identified a small number of audit adjustments from our procedures to date which have been adjusted for by management. These are also detailed in **Appendix 1**.
- 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. We have also extracted analysis around the user statistics. These will be communicated to the NHS Grampian Finance Best Practice Group.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Finalisation of our internal quality control procedures;
 - Finalisation of Financial Instruments specialists review;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2016.

Annual report

Overall conclusion

- We have reviewed the annual report with reference to the new disclosure requirements for 2015/16 which now require a performance report and accountability report to be disclosed. We have confirmed that the requirements of the Government Financial Reporting Manual (FRoM) have been met.
- We have reviewed the governance report, which forms part of the accountability report, applying the good practice note published by Audit Scotland, and noted that NHS Grampian has taken on board a number of areas of good practice.
- We have also read the performance report and confirmed it is consistent with the financial statements.

Partner introduction (continued)

Significant financial statements 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. We have evaluated the results of our audit testing in the context of the achievement of the targets set by the Scottish Government with no issues noted.
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%) £nil, Cat 2 (50%) £5,059k and Cat 3 (100%) £15,909k. NHS Grampian were notified, post year-end, of a clinical negligence claim with an estimated value of £7.5 million. An uncorrected misstatement for the understatement of the provision and the associated receivable is reported in Appendix 1. This has an overall nil impact to the Board.
PPE valuation			
✘	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	The downward revaluation of PPE of £26.574 million (£23.852 million charged to the Revaluation Reserve and £2.722 million charged to the Statement of Comprehensive Net Expenditure) was based on methodology and assumptions adopted by the District Valuer and has arisen as a result of the downturn in the local property market. We are satisfied that the correct guidance has been adhered to following our audit procedures and the review performed by our internal property specialists.
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 from other NHS Scotland Boards confirmed to third party confirmation through the inter-NHS matching process (SFR 30).

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the public sector audit dimensions with regard to NHS Grampian:

Financial management

The final outturn was an in year surplus of £6k against a breakeven target, resulting in a cumulative surplus of £143k complying with revenue resource limit in the year. The main cash releasing savings in the year came from areas of slippage from planned investments, workforce, procurement and savings in non-clinical areas allowing the Board to achieve the Scottish Government's "Efficient Government" target. The cash requirement target of £994 million was also met.

The infrastructure and backlog maintenance programme for the year of £21.5 million has been invested in full, which was resourced from a combination of capital funding (£11.645 million), income from donations for capital projects (£3.751 million), revenue budgets made available to support estate maintenance (£4.122 million) and proceeds from asset disposals (£2.397 million).

The financial management framework and budgetary control systems appear well controlled and expenditure is linked to the Board's strategic objectives. We have seen evidence in the year of the board investing in strategic health priorities, including £2.8 million of capital expenditure on the establishment of the first robotic and minimally invasive surgery service in Scotland and a new endoscopy service at Aberdeen Health and Social Care Village. The Board has reported that both these developments are having positive impacts on patient outcomes and access to high quality care.

Financial sustainability

Financial sustainability continues to be one of the most significant challenges and risks for NHS Grampian. NHS Grampian has a local delivery plan in place, with forecasts for the next 5 years. 28% (£7.4 million) of savings remain unidentified for 2016/17 and this increases to 52% - 87% in the following four years. It is good practice to identify savings in full in advance of the start of the year to ensure that sufficient time is set aside to have fully developed implementation plans. The Board is currently developing cost reduction plans to identify means of achieving a balanced budget.

Uncertainty over future funding allocations and the level of forecasted savings pose a threat to the successful delivery of the NHS Grampian's local delivery plan. Further scenario planning and sensitivity analysis could be performed by the board to assess the impact of these issues.

In accordance with Audit Scotland planning guidance, we have performed targeted follow up work based on the recommendations made in the national performance report on Scotland's Public Sector Workforce which was published in November 2013 and submitted a standard questionnaire in accordance with Audit Scotland guidance. We confirmed that NHS Grampian has both an organisation-wide and departmental workforce plans in place informed by the Workforce 2020 vision, which are consistent across the organisation. Succession planning is considered but only for the short-medium term, as required by the Scottish Government guidance.

Partner introduction (continued)

Public sector audit dimensions (continued)

Governance and transparency

Governance arrangements are effective within NHS Grampian with committees of the Board overseeing governance and performance monitoring. No significant control weaknesses have been reported within the governance statement which is consistent with our knowledge, however, actions to enhance the governance arrangements and overall control environment have been disclosed based on the work of internal audit, fraud investigations and external reviews.

We have reviewed the financial and performance reporting to the Board during the year. Monthly management reports are clear and produced in a timely manner.

During 2015/16 the Board has continued to implement the recommendations from the Health Improvement Scotland (HIS) review and the Board Executive has had regular meetings with both the Scottish Government and HIS to report on progress. Our independent high level review of the clinical governance arrangements identified a number of areas of good practice as well as areas for improvement which are being taken forward by the Clinical Governance Committee. This includes clarifying roles, accountabilities and lines of reporting in relation to clinical governance structures at the corporate level and opportunities to improve the quality and clarity of papers presented to the Clinical Governance Committee.

Work is progressing with the Integration Joint Boards (IJB's) which became operational from 1 April 2016 and regular reports on progress have been made to the Board. Budgets for those services being delegated were approved in March 2016 and arrangements including workforce planning, performance management and internal audit are progressing.

Value for money

We have performed testing over both core and non-core expenditure and noted no issues.

We have concluded that the Board has a well established performance management framework, supported by effective performance monitoring.

The Board's performance at May 2016 against national and local targets reported 30% to be on track, 8% at risk and 62% not on track. Actions are in place to address a number of the areas at risk or not on track. This includes the IJBs reviewing their plans for improving the position on delayed discharges during 2016/17 and increasing capacity and resilience within local communities. NHS Grampian has also invested significantly in additional theatre and staffing capacity and is working closely with the Scottish Government to deliver sustainable improvement.



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 (and any assurance statement on consolidation packs);
- Providing the annual report on the audit to the Board and the Auditor General for Scotland;
- Communicating audit plans 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) exercise);
- Identifying significant matters arising from the audit, alert Audit Scotland accordingly and supporting Audit Scotland in producing statutory reports as required; and
- Undertaking work requested by Audit Scotland or local performance audit work.

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.

The Board is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



Significant risks

Core Expenditure Resource Limits

Key focus for management

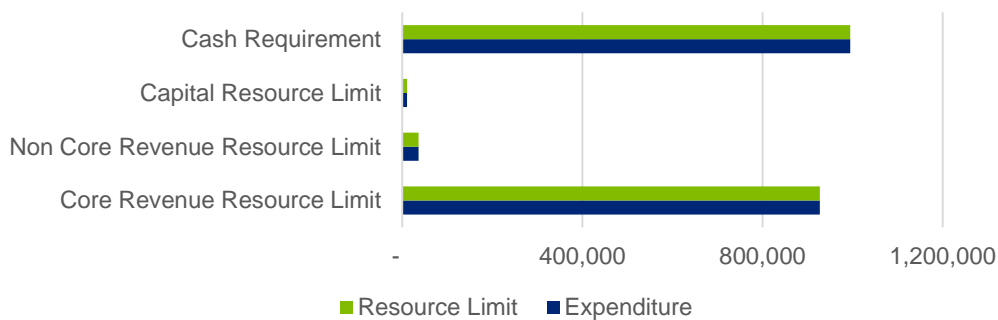
Nature of risk

The key financial duty for NHS Grampian is to comply with the Revenue Resource Limit, Capital Resource Limit and cash requirements set by the Scottish Government. Given the budget position reported at various points during the year, there was a risk that these limits would be exceeded.

Key judgements

We must provide an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We have evaluated the results of our audit testing in the context of the achievement of the targets set by the Scottish Government with no issues noted.

Core Expenditure Resource Limits £'000



Deloitte response

Audit work performed to address the significant risk

- We assessed whether expenditure is correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Government's guidance;
- We performed focused cut-off testing;
- We reviewed and challenged the assumptions made in estimating the prescribing accrual to assess completeness of recorded expenditure. With the exception of the corrected misstatements noted in Appendix 1, no issues were noted; and
- We also obtained independent confirmation of the resource limits allocated to NHS Grampian by the Scottish Government in its letter of 12 May 2016 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 that 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.

Provisions

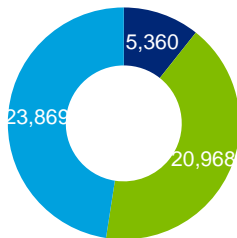
Clinical and medical negligence

Nature of the risk

There is significant judgement and complexity around this calculation, with both the Provision and associated Debtor individually material. As such, there is an increased risk that the provision is incorrect or incomplete. As a new requirement introduced in 2014/15, an additional provision is also required to be recognised to reflect the Board's share of the total Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) liability of NHS Scotland. Management rely on the expertise of the Central Legal Office (CLO) to provide an estimate of the liability due.

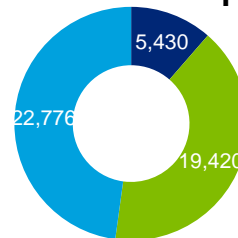
Key judgements

2015/16 Provisions £000



Pensions and similar obligations in line with prior year (not considered a significant risk).

2014/15 Provisions £000



Participation in CNORIS provision based on agreed contribution rates based on risk profile, as advised by the CLO.

Clinical and medical negligence increased in comparison with the prior year, with £15.639m classified as being payable between 2 and 5 years (£14.109m in 2014/15) based on estimated settlement dates provided by the CLO.

Deloitte response

- We obtained direct legal confirmation from the 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 Scottish Government, utilising information provided by 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 and noted no material movement on claims notified at 31 March 2016.
- NHS Grampian were notified, post year-end, of a clinical negligence claim with an estimated value of £7.5 million. No provision or corresponding recoverable amount has been included in the financial statements for this claim. This accounting treatment is in line with the Board's accounting policy and with the NHS Scotland Board Accounts Manual issued by the Scottish Government which requires that only those claims notified prior to the balance sheet date will be reflected in the accounts. However, IAS 10 (Events After the Reporting Period) requires an adjustment to be made where further evidence is obtained regarding a condition that exists at the year end. Accordingly the Board would require to increase the provision by £7.5 million, being the CLO's estimation of the value of the claim and the probability of settlement and to offset this with a corresponding receivable recognising that the claim is recoverable through CNORIS. Under CNORIS, the Board is liable for the first £25k of all claims, and the Scottish Government has confirmed that it would provide NHS Grampian Annually Managed Expenditure (AME) funding for this. The Board has disclosed this as a post balance sheet event in note 28 of the financial statements and has not adjusted the financial statements as the overall net impact to the Board is nil. An uncorrected misstatement has been noted in Appendix 1 to reflect the accounting treatment that would be required under IAS 10.

Provisions (continued)

Clinical and medical negligence (continued)

Deloitte response

- We agreed a sample of movements in the year to supporting evidence, and assessed whether the movements have been appropriately disclosed in the accounts based on advice from the CLO.
- We evaluated the competence, capability and objectivity of the CLO.
- NHS Grampian provide for 100% of category 3 cases and 50% of category 2 cases, with no provision against category 1 cases. 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.

Deloitte view

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

Valuation of property assets

The valuation of the Board's property assets is inherently judgemental

Risk Identified

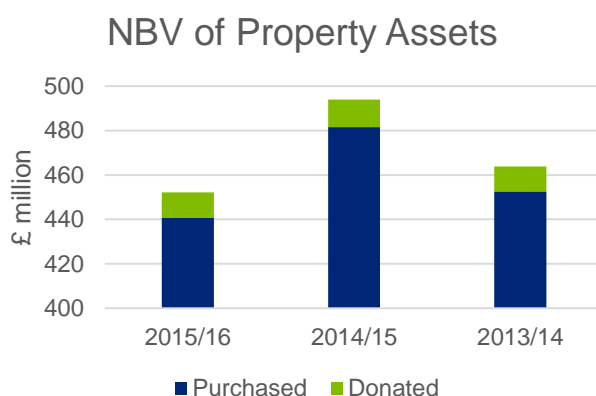
The Board is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Key judgements

The downward revaluation of £23.852 million debited to the Revaluation Reserve comprises the following significant decreases:

- Emergency Care Centre £5.5 million
- Aberdeen Royal Infirmary (ARI) £4.4 million
- Dr Grays Hospital £1.9 million
- Woodend Hospital £1.5 million

An impairment charge to the SOCNE of £6.238 million includes £2.722 million arising from downward revaluations and £3.516 million is in relation to capital costs in the year which have been re-valued downwards based on the valuation of projects.



Deloitte response

- 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 are satisfied that the correct guidance has been followed and the correct valuation bases are being adopted. The District Valuer (DV) is independent of NHS Grampian, appropriately qualified and appears to have the requisite experience to undertake the valuations;
- 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 material changes of assets not subject to full revaluations during the year;
- We considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS;
- We involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the DV; and
- We have reviewed the basis of valuation of assets held for sale and confirmed that as there are no restrictions to their disposal, they have been valued at fair value in accordance with IFRS 13, *Fair Value Measurement*.

From our audit procedures, we have concluded that the NBV is not materially misstated. We have also noted that the DV and NHS Grampian has considered our prior year recommendations in relation to Modern Equivalent Asset (MEA) sizes and locations and has applied regional location factor to the Building Cost Information Service (BCIS) build costs.

Deloitte view

The Board's valuation assumptions are in line with other Boards and fall within the expected range highlighted by Deloitte Real Estate.

Management override of controls

We have used computer assisted audit techniques, including Spotlight, to support our work on the risk of management override

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 above our work on key estimates around revenue recognition, property valuations and provisions and accruals and note that there have been no significant one-off or unusual transactions in the period.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the Board's results throughout the year were projecting overspends in operational areas but this was closely monitored with confidence that the board would be able to meet its overall financial targets.
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered the 226,299 journals posted in the year. No issues noted from our testing.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

The control environment is appropriate for the size and complexity of the Board.

Management override of controls (continued)

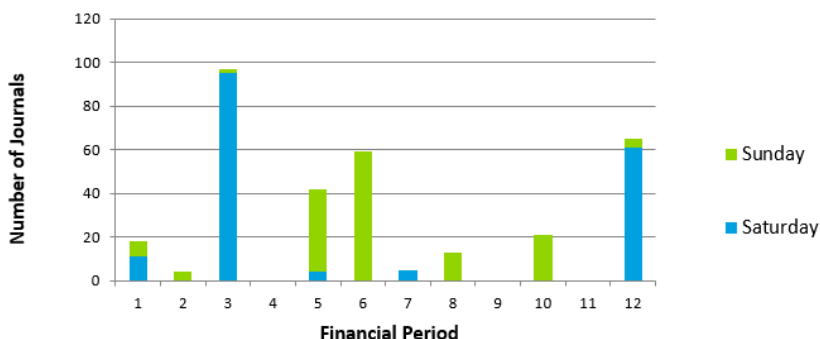
Insights from journal entry testing

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 statistics	2015/16	2014/15
Total number of journals	226,299	232,935
Average absolute value of journal	53,498	55,959
Number of journal lines	1,866,002	1,936,205
Number of users posting journals in the period	56	51
Average number of journals per user	4,041	4,567

Top 5 Users by Volume 2015/16			
Current Year Users		New Users	
Username	Total Number of Journals	Username	Total Number of Journals
NCB1	60,842	NSW1	799
NKB1	50,536	NGK1	710
NKG1	39,124	NSC2	322
NDR1	33,435	NME2	39
NJM4	10,361	NAS5	22

Journals entered on a non-business day



Management commentary:

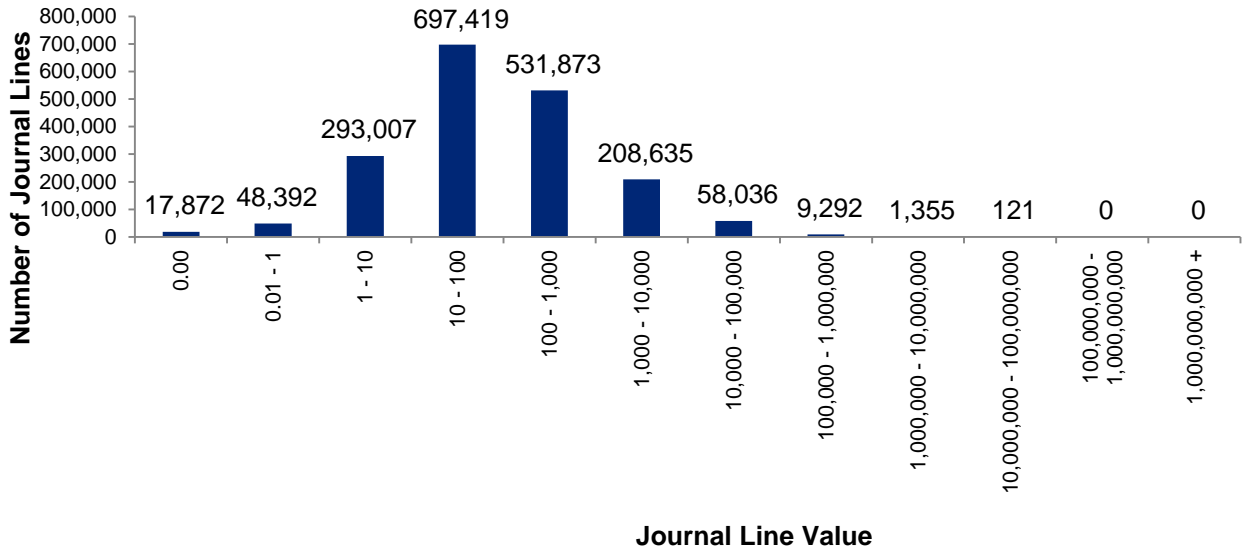
The reduction in the number of journals processed during the year is consistent with changes introduced to improve efficiency through consolidation of journal entries for specific areas of treasury and management accounting activity.

The highest volume users are consistent with the transactional nature of the workload generated in accounts payable and treasury and the increased number of users posting journals reflects staff turnover and cover arrangements for maternity/long term sick leave throughout the year.

The analysis of journals posted at weekends has been extremely useful. In most cases the transactional activity is consistent with periodic peaks in workload where staff are working weekends in order to meet key deadlines. The full results from the review of journal entries will be considered by the Finance best practice group with a view to identifying any opportunities for efficiency improvements across the department.

Management override of controls (continued)

Insights from journal entry testing (continued)



Points for management consideration:

- From the analysis of journal line values, there are 66,264 journal lines with a value of less than £1 and this increases to 359,271 journal lines less than £10. Although much of these are related to the POP accrual, the use of journal templates and cash transactions, there may be scope to make further efficiencies through reviewing the journals and enhancing the automation of journal entries or batching some of the smaller value transactions.
- There are a number of journal entries being processed at the weekend which is unexpected given the Monday to Friday nature of the working week within the finance team. This could highlight staff resource constraints and in more extreme cases could lead to fraudulent activity within these journals being posted at a time where there is less supervision.
- There are 20 users who have posted an average of less than 20 journals per quarter (2014/15: 15 users). The Board should consider the need for all users to have access to the system.

Deloitte have agreed to communicate the findings from our analysis to the finance team's Best Practice Group to discuss the transaction insights in more detail to inform discussions on potential efficiency improvements.

Other income recognition

Completeness of income outwith core funding

Risk Identified

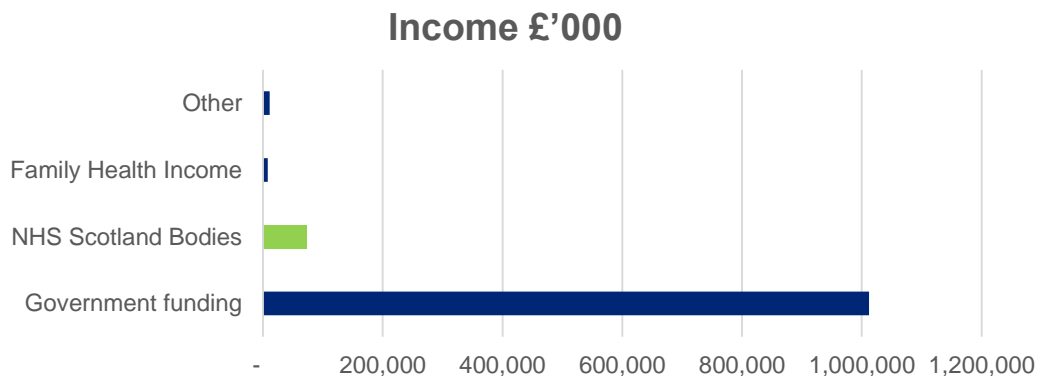
ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The risk is pinpointed to completeness of other operating income from other NHS Scotland bodies, which is outwith the core funding from the Scottish Government.

Key judgements

NHS Grampian received other income from NHS Boards of £72 million in the year. This income relates to provision of services to residents from other areas in Scotland. As funding is notified and agreed with other NHS Boards in advance of billing, there are limited areas of judgement in other income recognition within NHS Grampian.

The Scottish Government funding is not considered a significant risk as the board is notified of its funding each year which can be tested 100% via confirmations.



Deloitte response

We have assessed completeness of income through agreement of balances to signed third party confirmations required as part of SFR 30 (Balances with other NHS Scotland bodies). We have also performed our year-end cut-off procedures & assessed recoverability of outstanding amounts at year-end.

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

Deloitte view

We have concluded through the performance of our year end procedures that funding recorded is complete at year end. We do not consider there to be evidence of management bias in the revenue recognition policies adopted.

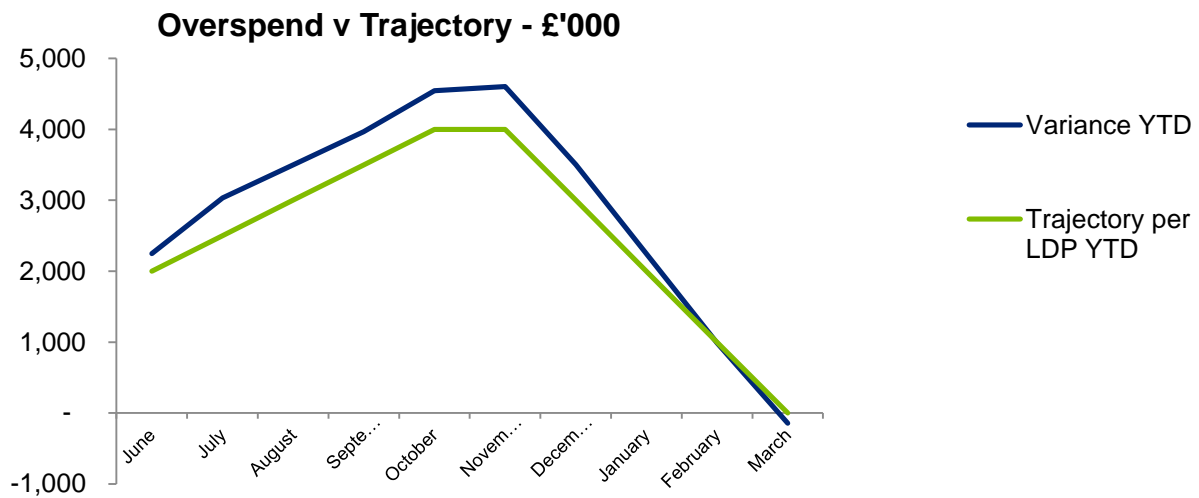
Public sector audit dimensions

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Revenue expenditure

NHS Grampian budgeted a breakeven position for the year to 31 March 2016. The final out-turn was a surplus against the core revenue resource limit of £6,000 which added to the brought forward surplus from the previous year resulted in a net surplus against revenue resource limit of £143,000. During the year the Board reported overspends each month, which were higher than the trajectory agreed with the Scottish Government and peaked at £4.6 million in November, but was effectively managed in the latter part of the year to bring a net surplus.



Financial balance was achieved through a combination of delivery of productivity and efficiency savings, planned and managed slippage on earmarked funding and addressing in year cost pressures. Looking forward, the Board has recognised within the Local Delivery Plan for 2016/17 a requirement to continue to manage any dependency on non-recurring resources in the context of more limited opportunities to use planned slippage following the establishment of the new IJBs. Key areas of risk are discussed further on page 21.

Infrastructure and backlog maintenance programme

The Infrastructure and backlog maintenance programme for the year was fully achieved with a total investment of £21.5 million. The pattern of spend was smoother than in previous years with less of a spike at the end of the financial year. The main areas of spend in the year were:

- Backlog maintenance works at ARI Phase 2 and the former A&E Theatres recommissioning;
- Replacement of the Woodend boilers;
- Installation of the first robot assisted surgery system in Scotland at ARI;
- Replacement of high priority medical equipment;
- Purchase of Brimmond Medical Centre;
- Equipping the endoscopy service at Aberdeen Health Village; and
- Projects funded from donations at Roxburghe House, Hospital Radio at ARI and the Roof Garden at ARI.

Financial management (continued)

Overall financial and performance

The table below illustrates how the Board's performance compares to plan and prior year. The split between recurring and non-recurring is based on the Board's Financial Performance Return submitted to the Scottish Government, which we have confirmed reconciles in total to the audited financial statements.

	2015/16 Recurring £'000	2015/16 Non-Recurring £'000	2015/16 Total £'000	2014/15 Total £'000
Income	1,092,424	32,019	1,124,443	1,071,646
Expenditure	(1,115,697)	(33,656)	(1,149,353)	(1,094,707)
Savings	16,395	8,658	25,053	23,198
Surplus/ (Deficit)	(6,878)	7,021	143	137

NHS Grampian had a year end underspend of £143,000. This was achieved through a combination of significant underspends and overspends reported as follows:

- The pay budget reported an overspend of £2.207 million (0.4%) which included a £6.5 million overspend due to agency locums to cover vacancies together with banding costs for non-compliant junior medical rotas with the New Deal and Working Time Regulations. In addition there was a £1.6 million overspend on the nursing budget which was a reflection of a combination of impact of incremental drift, high levels of bank usage and some areas operating significantly in excess of funded establishment. This was offset by £5.3 million underspend in other pay costs. Pay costs have been uplifted for 2016/17 to reflect inflation, pay increments and the additional cost of employers national insurance. Plans are being implemented to reduce the use of both medical locum and agency nursing in 2016/17.
- The Acute Sector remains the largest risk to NHS Grampian's ongoing financial performance and reported an overspend of £14.3 million compared to £6.4 million in the 2014/15. This is mainly due to a failure to identify savings to meet the cost reduction target, a high use of expensive agency locums and a number of junior doctor rotas becoming non-compliant and therefore attracting premium payments. Whilst the Acute Services budget will be uplifted by £15 million in 2016/17, this will be required to fund pay cost increases noted above and projected increases in secondary care drug expenditure. The Acute Sector will require to achieve productivity and efficiency savings of c£8m-£10m to achieve financial balance.
- GP prescribing budget reported an overspend of £2.2 million reflecting higher unit costs than those expected with the volume growth largely in line with budget. There has been an increase in funding allocated to the GP prescribing of £2.4m for 2016/17 to meet predicted increases in the unit cost of medicines.
- A £20.145 million underspend on centrally held reserves reflects a significant degree of slippage on expenditure associated with earmarked funding received from the Scottish Government during the year. The single most significant area of slippage was against funding allocated to the shadow Integrated Care Fund and for dealing with Delayed Discharges.

Financial management (continued)

Outcome based budgeting

NHS Grampian is committed to investing in strategic health priorities. The following planned investments were made during 2015/16:

- **Unscheduled Care** - additional capacity has been made available to improve patient pathway through enhanced consultant and medical cover and increased support in the form of triage nurses, advanced clinical practitioners and physician associates. The Board also used the national integrated care and delayed discharge funding to invest in greater resilience in community and social care services.
- **Cancer** – the Board invested both revenue and capital funding to establish a new endoscopy service at Aberdeen Health and Social Care Village. The Board has reported that this has resulted in a reduction in the waiting times for access to endoscopy in the last 12 months.
- **Elective Care** – introduction of the first state-of-the-art Robotic Assisted Surgical System in Scotland for minimally invasive procedures. The Board has reported that this has resulted in improved outcomes for urology patients. ARI also became the first NHS Scotland hospital to use an O-Arm scanner which is designed to improve the speed and accuracy of operations, removes the need for repeat X-rays and improves recovery time for patients.

In terms of the next five years, the Board's infrastructure programme includes investment in a number of strategic health priorities:

- **Primary and Community Care Investments** taking into account the functional suitability and capacity of existing premises and emerging new settlements in line with the local development plans;
- **Major hospital development investment**, including the Baird Family Hospital (replacing the existing maternity hospital, breast screening, gynaecology and neo-natal facilities), establishment of the ANCHOR Cancer Centre and the new diagnostic and treatment centre to meet further to requirement for elective capacity in Grampian.
- **Sustainability** –NHS Grampian signed the 25 year contract for the Carbon Energy Fund project which is projecting overall reduction in carbon emissions of 16%.

Conclusion

A small underspend against the Board's Revenue Resource Limit was achieved at the year end through a combination of delivery of productivity and efficiency savings, planned and managed slippage on earmarked funding and addressing in year cost pressures. However there are still overspends in a number of operational areas, such as the Acute Sector, which are driven by high levels of medical staffing costs and an inability to meet cost reduction targets in all cases.

Capital expenditure was effectively managed within the resources available.

There is evidence that spend against budget is closely monitored and action plans prepared where overspending occurs, however, there is still a continued reliance on centrally held reserves to support areas of significant overspend. Robust and achievable cost reduction plans need to be put in place and closely monitored as future funding is not expected to have this level of flexibility.

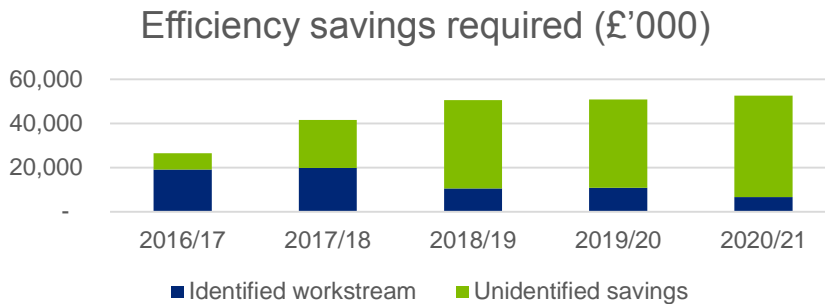
Expenditure is being targeted to the Board's strategic objectives which are reported to be having positive impacts on patient outcomes and access to high quality care.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial outlook

The 2016/17 revenue budget and capital programme were agreed by the Board on 2 June 2016. 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:



It is good practice to identify savings in full in advance of the start of the year to ensure that sufficient time is set aside to have fully developed implementation plans.

The base funding uplift of £14.1 million plus the additional move to NHS Scotland Resource Allocation Committee (NRAC) parity amounts to a £29.1 million funding increase in comparison with 2015/16. In addition, the budget reflects NHS Grampian's share of the £250m Scottish Government budget to support better social care outcomes, £14.2 million to support the various initiatives covered by the outcomes framework.

This is offset by additional cost pressures of £28.7 million and targeted investment of £5.5 million. The targeted investments are in line with national health priorities and/ or local priorities.

2016/17 Cost pressures	£'000	2016/17 Targeted Investment	£'000
Increased pay costs (including locums)	9,500	Unscheduled care plan	1,200
National Insurance increase	10,300	Additional MRI Scanner	300
GP and Hospital Drugs	4,100	Additional anaesthetic and obstetric consultants	600
Making good IJB slippage/ other pressures	4,800	New renal dialysis unit (Stonehaven)	300
Total	28,700	HIE compliance	500
		National service contracts – new services	600
		Other	500
		Contingency/spend to save provision	1,500
		Total	5,500

Financial sustainability (continued)

Financial outlook (continued)

As noted on page 21, 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 2016/17 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. The delivery of the actions within the Board's Improvement Programme, discussed further on page 26, has been achieved through positive clinical engagement and clarity around the changes required. Delivery was facilitated through provision of management support and resource, availability of reliable data in terms of service provision and patient activity. This is consistent with our experience where one of the most important factors to implementing change within a clinical setting 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. A data diagnostic as explained on page 31 could help identify how savings can be achieved.

Workforce Planning

To achieve its long term vision detailed within Healthfit 2020, managing its workforce is key and staff development, training and education is key to creating and maintaining a robust and pro-active workforce and remains a high priority for NHS Grampian.

In accordance with Audit Scotland planning guidance, we have performed targeted follow up work based on the recommendations made in the national performance report on Scotland's Public Sector Workforce which was published in November 2013 and submitted a standard questionnaire in accordance with Audit Scotland guidance. We confirmed that NHS Grampian has both an organisation-wide and departmental workforce plans in place informed by the Workforce 2020 vision, which are consistent across the organisation. Succession planning is considered but only for the short-medium term, as required by the Scottish Government guidance.

In its LDP for 2016/17, the board has noted that workforce issues are proving challenging, particularly with regard to recruitment and retention of GPs. A workforce plan is being implemented to take forward various initiatives to support the workforce of the future. The three IJBs are engaged in a broad range of initiatives to address the workforce challenges and opportunities, working with all partners.

Conclusion

As with all NHS Boards, NHS Grampian has challenging savings targets to meet moving forward to continue to be financially sustainable. Historically, NHS Grampian has achieved its savings targets, however, this is largely as a result of reliance on centrally held reserves to support areas of overspend. The Board has made some progress in identifying areas of the organisation where it will realise these savings in 2016/17, however future years are more uncertain and detailed plans to realise these savings in each area should be agreed as soon as possible to ensure that NHS Grampian can achieve these targets. Further scenario planning and sensitivity analysis could be performed by the Board to assess the impact of these issues.

We would, however, highlight that there is a risk that the £7.4 million of unidentified efficiency savings required in 2016/17 may not be achieved.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

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



Following a number of changes in leadership in 2014/15, the current year has been more stable with the Chief Executive and Medical Director having now been in post for over a year. A new Director of Nursing, Midwifery and AHPs was appointed in September 2015. Following the conclusion of the 2015/16 audit, the current chair of the Audit Committee, David Anderson, will be succeeded by Rhona Atkinson and appropriate handover arrangements are in place.

Internal Audit has completed its annual plan in accordance with the three year strategic plan and has reported its findings from each area to the Audit Committee throughout the year. All high risk recommendations are then reported to each Audit Committee to monitor progress with implementation. Appropriate disclosure has been made regarding the high risk recommendations made in the year as part of the annual governance statement.

Management have implemented a number of improvements to its internal controls for management of locum staff during the year following an investigation into a high value suspected fraudulent claim for locum medical services.

Deloitte Conclusion

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

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 and expenditure controls, as well as their work on the annual governance statement. We have reviewed the working papers of internal audit 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 the high value suspected fraud noted above will be reported by the Board to the Scottish Government. Ongoing potential fraud investigations have been reported to each Audit Committee and are included in SFR 18 (Summary of Losses and Special Payments) submitted to the Scottish Government.

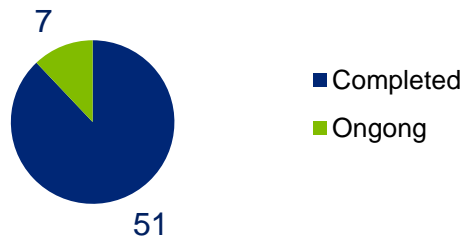
Governance and transparency (continued)

Follow up of HIS review

As reported in our 2014/15 annual report, the Board developed an Improvement Programme to address the issues raised in the HIS review of Quality and Safety at Aberdeen Royal Infirmary, the Royal College of Surgeons (RCS) (England) report and the findings and recommendations from the unannounced Older People in Acute Hospital (OPAH) inspection which were published in December 2015.

During 2015/16 the Board has continued to implement the recommendations and the Board Executive has had regular meetings with both the Scottish Government and HIS to report on progress. Progress reports have also been reported to each Board meeting throughout the year. The report presented to the March 2016 Board meeting noted the following progress against the 58 individual actions from the HIS report. It also noted that all actions in relation to the recommendations made by the RCS and OPAH report were on track:

Status of progress against HIS recommendations – March 2016



To support the Board's improvement programme, we were commissioned to carry out an independent high level review of the **clinical governance arrangements** as this was a key theme raised in the HIS report. Our final report was presented to the Audit Committee in March 2016 and the key points from this review are summarised below.

Areas of strength and good practice	Areas for further development and improvement
A clear recognition by the Board of the areas in relation to clinical governance which require further development, and a commitment to take steps to address these.	A lack of clarity in relation to roles, accountabilities and lines of reporting in relation to clinical governance structures at the corporate level, with concerns that the teams within the Clinical Governance and Risk Support Unit operate in silos.
A Clinical Governance Committee with strong attendance and clear commitment to it from the Chief Executive, Chair and other Board members.	A need to further strengthen the clinical governance arrangements in the Acute Sector, particularly in relation to the standardisation and effectiveness of the approach taken across divisions.
Recent improvements to the Clinical Governance Committee agenda to increase the strategic nature of its business and its focus on quality improvement.	A number of opportunities to improve the quality and clarity of papers presented to the Clinical Governance Committee, along with the extent to which the assurances presented adequately encompasses the key these of safety, experience and effectiveness.

After consideration by the Audit Committee, the report and associated action plan was passed to the Clinical Governance Committee who will oversee the development and implementation of detailed actions to meet the key recommendations.

Governance and transparency (continued)

National Fraud Initiative

In accordance with Audit Scotland planning guidance, we are required to monitor the Board's participation in the National Fraud Initiative (NFI) and progress during 2015/16 and completed an NFI audit questionnaire by 29 February 2016.

A summary of the matches reported in the NFI system is provided below:

	Payroll	Creditors	Total
Total matches flagged	527	2,832	3,359
Total recommended matches to be investigated	139	334	473
Total processed	445	398	843
Frauds	Nil	Nil	Nil
Errors	1	3	4
Outcome	£335	£45,605	£45,940

The four errors noted above are due to duplicate payments being made and all have been subsequently recovered. No changes to internal controls are proposed as after investigation it was identified that these were as a result of human error where controls in place were not being appropriately followed.

No frauds have been identified as a result of this work.

Deloitte Conclusion

We reported in our 2014/15 annual report, that plans were in place within NHS Grampian to address all recommended matches within the period June to December 2015.

At the time the NFI questionnaire was completed in February 2016, the results of investigations had been recorded in the NFI system and further work was planned to complete the review of all matches by 31 March 2016. The review of all matches had not been fully completed as resources were being prioritised on an ongoing fraud investigation not associated with the NFI exercise. All recommended matches were subsequently investigated by 31 March 2016.

We concluded that NHS Grampian is fully engaged in the NFI exercise.

Governance and transparency (continued)

Integration of adult health and social care

Governance arrangements

The Health and Social Care Partnerships (HSCPs) for Moray, Aberdeenshire and Aberdeen City were established on 6 February 2016 following the approval of the Integration Schemes by the Scottish Government and services have been delegated from 1 April 2016. The following key actions have taken place in advance of “go live” date:

- After wide engagement and consultation, the **strategic plans** for each of the HSCPs have been formally approved by the relevant IJB. These plans will provide the high level guidance for the preparation of more detailed commissioning plans during 2016.
- Work has been done to develop proposals for the **hosting of delegated services** which are currently provided on a Grampian wide basis. These are mainly based on the previous Community Health Partnership hosting arrangements.
- Following the delegation of budgets to the HSCPs, including elements of the acute sector budget, the **Acute Sector** management team are engaged with the Chief Officers in terms of the future planning of services. The development of the winter plan for 2015/16 involved close collaboration with the IJBs and it is anticipated that the working relationships will be further strengthened as the IJBs move forward.

Workforce planning and organisational development

- Letters have been issued to all staff affected by the change. Around 6,000 NHS Grampian staff transferred into the new HSCPs on 1 April, although they will continue to be employees of NHS Grampian.
- Work to establish the future staffing arrangements within the Partnerships and between the Partnerships and the host employer are progressing. Arrangements to define the future employee relations model within the Partnerships are broadly agreed.
- Discussions on the process of organisational change and the implications of this are ongoing, as are the development of future workforce plans.
- The NHS Grampian Executive Team has been reformed to be the Senior Leadership Team with a specific aim of supporting and encouraging integration. The IJB Chief Officers and the Acute Services General Manager are full members of this team.

Risk management

- A joint risk framework has been agreed between the representatives of NHS Grampian and the IJBs which will guide the approach to risk management beyond the formal establishment of the IJBs.
- The Risk Management Strategy for NHS Grampian was approved by the Audit Committee in January 2016. The Risk Management Strategies for the individual HSCPs will be approved by the respective IJB.

Performance management

- New performance management arrangements have been put in place which includes joint performance management of the Chief Officer and system wide performance management.
- Improved information sharing is of key importance in the delivery of high quality integrated services.
- A cross system steering group for information sharing has been established which will develop a joint vision and organise joint decision making processes to maximise the benefits of information sharing whilst meeting the requirement of legislation.

Governance and transparency (continued)

Integration of adult health and social care (continued)

Delegated budgets

Budgets for those services that require to be delegated according to the legislation were approved by the Board on 3 March 2016. The budget setting process was consistent with the process for other non-delegated services provided by the Board. The assumptions underlying the budgets have been discussed and agreed with the Chief Officers who are members of the Board's Budget Steering Group. The s95 officer for each of the HSCPs has also been invited to attend the Budget Steering Groups.

The total contribution from NHS Grampian is £476m as detailed below, equivalent to 43% of the Board's total revenue budget. These figures are based on the overall NHS Grampian budget approved by the NHS Grampian Budget Steering Group on 22 February 2016.

	Aberdeen City £m	Aberdeenshire £m	Moray £m	Total £m
Core Community Services	47.432	52.973	20.615	121.020
Community Mental Health	9.073	6,547	6,409	22,029
Prescribing	38.334	41.881	16.590	96.805
Primary Care	33.476	33.702	13.270	80.448
Share of Hosted Services	20.852	12.657	3.891	37.400
Social Care Funding/ Integrated Care Fund/ Delayed Discharge	14.375	14.441	6.087	34.876
Total Directly Controlled Budget	163.542	162.174	66.862	392.578
"Set Aside" budget for Hospital Services	46.732	26.665	10.163	83.560
Total Contribution from NHS Grampian	210.274	188.839	77.025	476.138

The total agreed budgets for the IJBs for 2016/17 are as follows

	Aberdeen City £m	Aberdeenshire £m	Moray £m	Total £m
Contribution from NHS Grampian	163.542	162.174	60.578*	386.294
Contribution from local authority	88.157	101.060	46.540	235.757
Total IJB budget 2016/17	251.699	263.234	107.118	622.051
"Set Aside" budget for Hospital Services	46.732	26.665	10.163	83.560

* Adjusted £4.274m resource transfer and £2.010m half share of the £250m national funding.

NHS Grampian has noted that a due diligence exercise will be carried out at the end of the 2016/17 financial year to assess the adequacy of the payment made in the first year for delegated functions and to inform the budget for future years. As reported in our 2014/15 report, the use of analytics to better align the respective budgets of the local government and health partners to targeted outcomes is an area that has potential scope for further work as the partnerships develop.

Governance and transparency (continued)

Integration of adult health and social care (continued)

Internal audit arrangements

Following agreement at the Audit Committee in June 2015, a joint scope for an internal audit review of the governance, financial and monitoring arrangements for the establishment of the IJBs was agreed with all local authority partners. Each of the individual reports were considered first by each organisation's Audit Committee and then shared with the relevant Shadow IJB prior to March 2016.

The Board's internal auditors reported their findings to the March 2016 Audit Committee as follows: The **scope of the review** was to assess the design and operational effectiveness of NHS Grampian's key controls over governance, financial provisions and monitoring arrangements in place for the establishment of the three IJBs in Grampian.

Summary of findings

"Overall we have identified processes and controls in place to address the objectives set out for the review. However, from our work performed we have identified areas where improvements in the current integration arrangements could be made."

Two **medium risk findings** were reported as follows:

- The review highlighted the tasks that were required to be completed prior to 31 March 2016, and noted that there was no clear timetable in place for their completion. **Management confirmed that a timetable was prepared for all key tasks requiring completion and the IJBs were legally established in February 2016 and formally operational on 1 April 2016.**
- The Performance Governance Committee of NHS Grampian only considers the financial performance of NHS services delegated to the IJBs. Whilst this approach may be satisfactory for 2016/17 where any overspends will be met by either the NHS Board or local authority with operational performance responsibility for that service, in subsequent years overspends will be managed by either a single body making a one off payment or both bodies making a joint payment based on each of their proportionate share of the baseline payment to the IJB, regardless of which arm of the operational budget the overspend has occurred. NHS Grampian would benefit from having oversight of the performance of the IJBs as a means of gauging the likely financial dependency of the IJBs on the Board. **Management confirmed that since January 2016, joint performance review meetings have been held between the Chief Executives of the Health Board and Local Authority and the respective Chief Officer. These meetings consider the overall financial performance of the IJB including local authority and health board services. Using the outcomes of these joint meetings, the overall financial position of each IJB will be reported to the Performance Governance Committee in 2016/17, alongside the NHS Board financial position.**

Audit and Assurance Network

A Grampian Health and Social Care Integration Audit and Assurance network has been set up. The purpose of this network is to become the local forum to support the development and ongoing co-ordination of audit and assurance arrangements across the three IJBs and the partner bodies within Grampian. A progress report following each meeting will be available to the Audit Committee. The first meeting was held in December 2015.

Deloitte conclusion

Overall, we have concluded that work is progressing with the IJB's now operational from 1 April 2016 and regular reports on progress have been made to the Board.

Governance and transparency (continued)

Integration of adult health and social care (continued)

Data Diagnostics

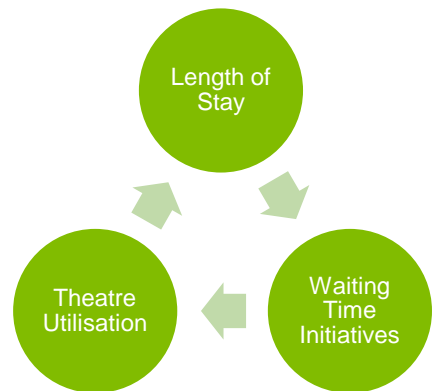
As both the health and local government sectors continue to be under huge financial pressure, it is important that the new IJBs use the integration of adult health and social care to make transformational change. The following case study is an example of work we have seen elsewhere which NHS Grampian and its partners could benefit from in performing a similar review.

Case Study – Data Diagnostics

Deloitte has been involved in work in another NHS Scotland Board where we were commissioned to support the organisation to understand their data and how they can use it, now and in the future, to identify opportunities for improvement and make changes to the services that will support the achievement of the required financial position.

A key challenge was to identify and prioritise areas for further analysis given the wealth of data, systems and information available. Working with the NHS Board, we agreed to focus on analysis of length of stay data and theatre information from the TrakCare and ORSOS systems respectively.

From this work a number of key opportunities were identified:



• Reducing Length of Stay Variances – opportunity value £5m - £ 7.5m per year

- Designing a consolidated improvement programme focused on discharge planning across the health and social care economy should address issues including multiple entry routes and improvements in hospital processes, for example moving discharge decisions earlier in the day.
- Implement a number of speciality level improvement including engaging directly with the clinical community using the data visualisation tools developed to help drive clinical and operational change.

• Maximise Core Time Theatre Capacity – opportunity value £1.5m - £4.0m per year

- Implement a programme aimed at maximising day case rates with the presumption that agreed surgical procedures are listed as a day case as standard.
- High cancellation rates should be addressed through improvements in pre assessment and scheduling. We estimated that this would increase throughput by 2-3% (c£1m-£2m).
- Look to maximise core hour theatre capacity to reduce reliance on weekend Waiting List Initiatives (WLI) by moving WLIs into workday gaps in the schedule which we estimated would further reduce costs (c£0.5m-£1m).
- Working practice modernisation such as reviewing the theatres working day and job plans would provide further productivity opportunities.
- Review private sector tariffs. We estimated that the unit costs are 47% higher than English tariff which sets the benchmark for private providers in England (c£0.5m-£1m).
- Embed a robust approach to demand and capacity modelling at speciality level and articulate a clear plan to move to a sustainable position.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

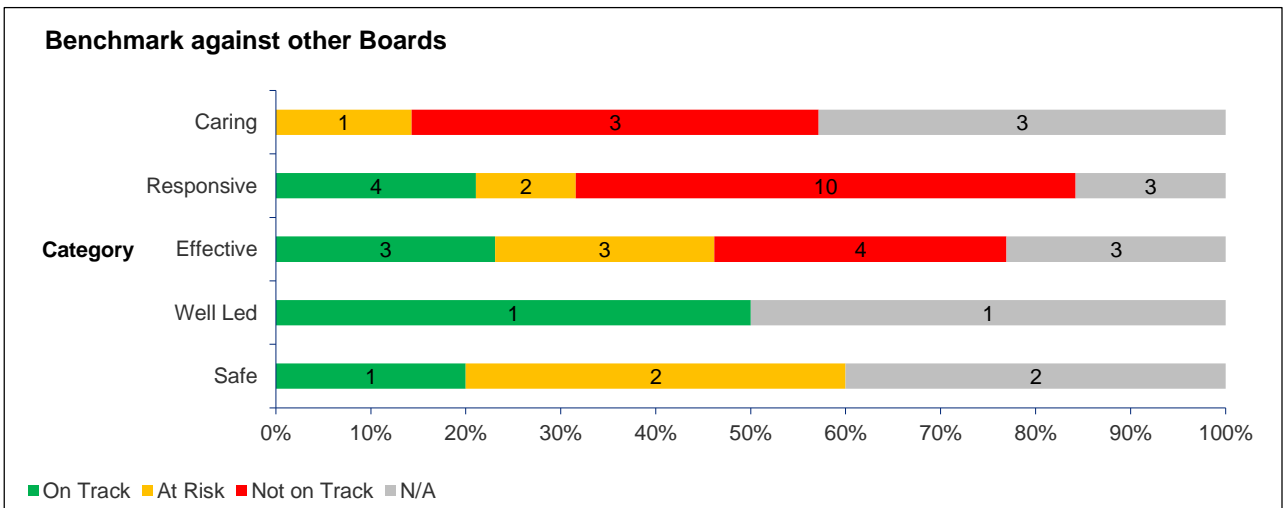
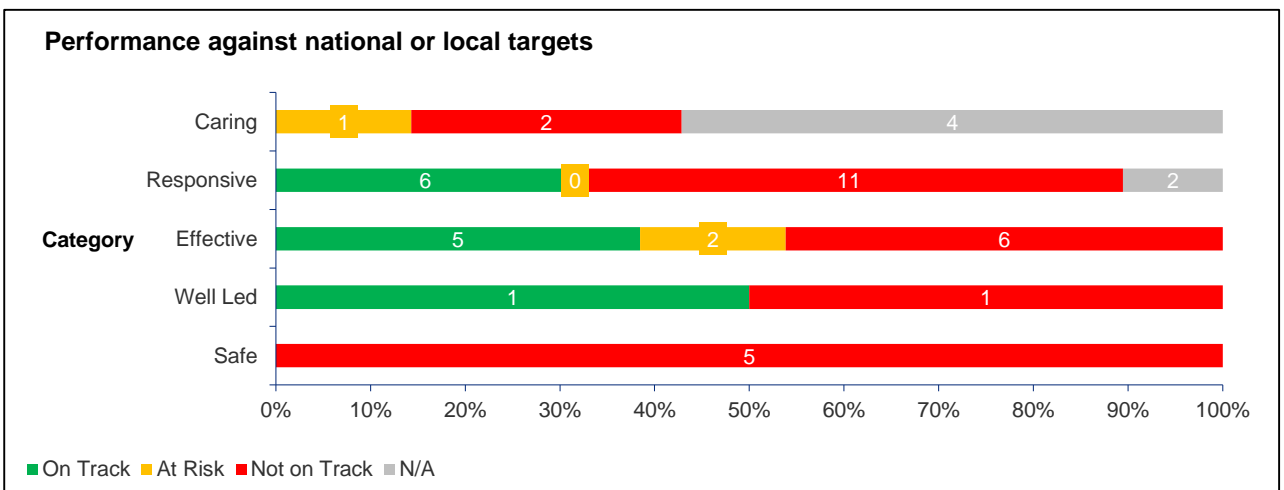
Performance management

The performance of NHS Grampian is monitored by the Scottish Government against a number of targets and standards which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in the Board's 2015/16 Local Delivery Plan (LDP).

Performance against LDP targets and standards is presented to each meeting of the Performance Governance Committee and subsequent Board meetings by exception. These performance reports also include progress against local performance indicators

Overview of performance targets in 2015/16

The board's performance against its LDP targets and standards as well as how it is benchmarked against other boards as reported in the May 2016's Performance Report and based on the most up to date data available is summarised below:



Value for money (continued)

Performance management (continued)

Examples of action being taken by the Board to address areas where performance is either at risk or not on track include:

Caring – Since 2011, NHS Grampian have had a small team working on the person centred quality ambition. One of the aims of the team has been to increase the ways in which people can provide feedback about care and services. The manner in which learning and change can result from feedback has been explored and strengthened.

Responsive – The number of delayed discharges in Grampian remains high in Scottish terms but there has been significant reductions throughout 2015/16. It has also continued to report breaches of the 18 week Treatment Time Guarantee but numbers are reducing. Delivery of the 62 day standard for treatment of suspicion of cancer is lower than other Scottish Boards. NHS Grampian has invested significantly in additional theatre and staffing capacity and is working closely with the Scottish Government to deliver sustainable improvement. IJBs will also be reviewing their plans for improving the position during 2016/17 and increasing capacity and resilience within local communities.

Effective – Whilst full year data for 2015/16 are not yet available for all measures, NHS Grampian continues to make progress in the delivery of many national health and wellbeing targets and takes action where performance is lower than expected.

Well Led – There is a national standard that sickness absence should be no more than 4%. NHS Grampian continues to report a much lower than average rate than the national average, generally below 4.5%. The Board continue to work to reduce this further by promoting the widespread application of its HR policies, including iAMS, a partnership approved supported return to work approach.

Safe - The Board participates fully in the Scottish Patient Safety Programme, which aims to improve the safety and reliability of healthcare and reduce harm, wherever care is delivered. This has been rolled out beyond the original acute setting to mental health, maternity services and primary care. There continues to be rigorous auditing of compliance with hand washing and cleanliness.

Deloitte Conclusion

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. There is a framework of measures at directorate and service level.

The Board had a well established performance management framework in place, with performance regularly considered by management, the Performance Governance Committee and the Board. Overall the Board has reported a high number of areas at risk or not on track against local or national indicators, however, a slightly improved position is noted when benchmarked against other Boards. A number of actions are in place to address areas where performance is either at risk or not on track.

We are satisfied that the performance is appropriately discussed within the Performance Report in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

Value for money

Audit Scotland national reports

The following reports have been issued by Audit Scotland over the past year which may be of interest to Board members:

Title	Headline messages	Impact on NHS Grampian
<p>NHS in Scotland 2015 <i>Published October 2015</i></p>	<p>Fundamental changes and new ways of delivering healthcare are required now to ensure the NHS is able to continue providing high-quality services in the future.</p>	<p>With appropriate support from the Scottish Government, NHS Grampian's long term planning should be assessing its spending needs and options over a longer period of 5-10 years.</p> <p>It should also ensure that its work to meeting financial and performance targets also supports longer-term changes to delivering healthcare. This will help ensure that short term actions do not conflict with longer term plans.</p>
<p>Health and Social Care Integration <i>Published December 2015</i></p>	<p>Significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered, and improve outcomes for the people who use them.</p>	<p>The newly established IJBs must now take the lead and begin strategically shifting resources towards a different, more community-based approach to healthcare.</p> <p>To achieve the scale and pace of change that is needed, there should be a clear understanding of who is accountable for delivering integrated services, and strategic plans that show how the IJBs will use resources to transform delivery of health and social care.</p>
<p>Changing models of health and social care <i>Published March 2016</i></p>	<p>A lack of national leadership and clear planning is preventing the wider change urgently needed if Scotland's health and social care services are to adapt to increasing pressures.</p>	<p>NHS Grampian and its local authority partners must contribute to spreading their knowledge and good practice by working with IJBs to build a clear picture of what the future of health and social care looks like in their local areas, and what resources must be invested to make that a reality.</p>
<p>Reshaping care for older people – impact report <i>Published March 2016</i></p>	<p>This report looks at the impact made by the report <i>Reshaping care for older people</i>, which was published in February 2014.</p>	<p>Many of the recommendations made in the report are being taken forward as part of the integration agenda. The impact on NHS Grampian is as noted above.</p>

We note that there is a standard item on each Audit Committee agenda for sharing all relevant Audit Scotland reports and are subsequently passed to Chief Officers and Executive Team for consideration of required action and further dissemination as appropriate.

Value for money

Best Value (BV Toolkits)

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 management has noted the following progress:

- Strategic Plans are now in place for each of the IJBs. NHS Grampian is currently consulting on its Clinical Strategy which will reference to the IJB plans and the national clinical strategy priorities.
- A combined finance and performance report is now prepared on a monthly basis for review by the executive team. A similar combined report is now presented at each full Board meeting.
- The potential to introduce Outcome Based Planning and related financial reports is under review by an NHS Scotland National Costing Group chaired by the NHS Grampian Director of Finance. The work of the national costing group has focused on considering and evaluating options to introduce a single costing methodology which would provide the potential enhanced financial data that could be lined to outcomes. The preferred costing option has now been determined as being patient level costing and this is the basis used for intra-Board costing.

Efficiency

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

- The IJBs strategic plans and the supporting use of the new transformational funding will inform future workforce requirements.
- In terms of supporting the development of the joint strategic plans, the Board's Health Intelligence function was used to support 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.

We have also followed up of **2013/14 BV Toolkit on health and social care integration** and the current status of this work is discussed on pages 28 to 31.

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:

The Performance Report

Management response

The report outlines NHS Grampian’s performance, both financial and non-financial. It outlines its vision, supported by a set of strategic themes, to deliver its Healthfit 2020 strategy. It also sets out the key risks and uncertainty as set out in the Local Delivery Plan.

Deloitte response

Deloitte has assessed whether the disclosures meet the minimum requirements of the FReM and that the report is a fair, balanced and understandable analysis of the board’s performance. No material omissions were noted.

The Accountability Report

Management response

Management have ensured that the accountability report meets the requirements of the FReM, consolidating their previous remuneration reporting, directors report and governance statement sections within this part of the report.

Deloitte response

Deloitte has assessed whether the disclosures meet the requirements of the FReM and no omissions have been identified. We have also discussed the Audit Scotland Governance Statement Good Practice Note with management and suggested areas where greater use of cross referencing and links to documents could enhance the report.

Remuneration policy and reporting requirements

Management response

Management has made appropriate disclosure within the Remuneration and Staff Report, including noting the policy regarding senior management pay and also disclosing off payroll engagements.

Deloitte response

We have tested to ensure that the remuneration report includes required disclosure and disclosures are accurate. No issues noted.

Going concern

Management response

Management has made appropriate disclosure relating to Going Concern matters.

Deloitte response

Deloitte has confirmed that the 2016/17 Local Delivery Plan was approved by the Board on 2 June 2016 and included draft budgets for 2016/17 to 2020/21. We have concluded that the plan is sufficiently robust to demonstrate that NHS Grampian will be a Going Concern for 12 months from signing the accounts.

We note that the Plan was approved by the Board on 2 June 2016 and confirmation from the Scottish Government is outstanding.

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

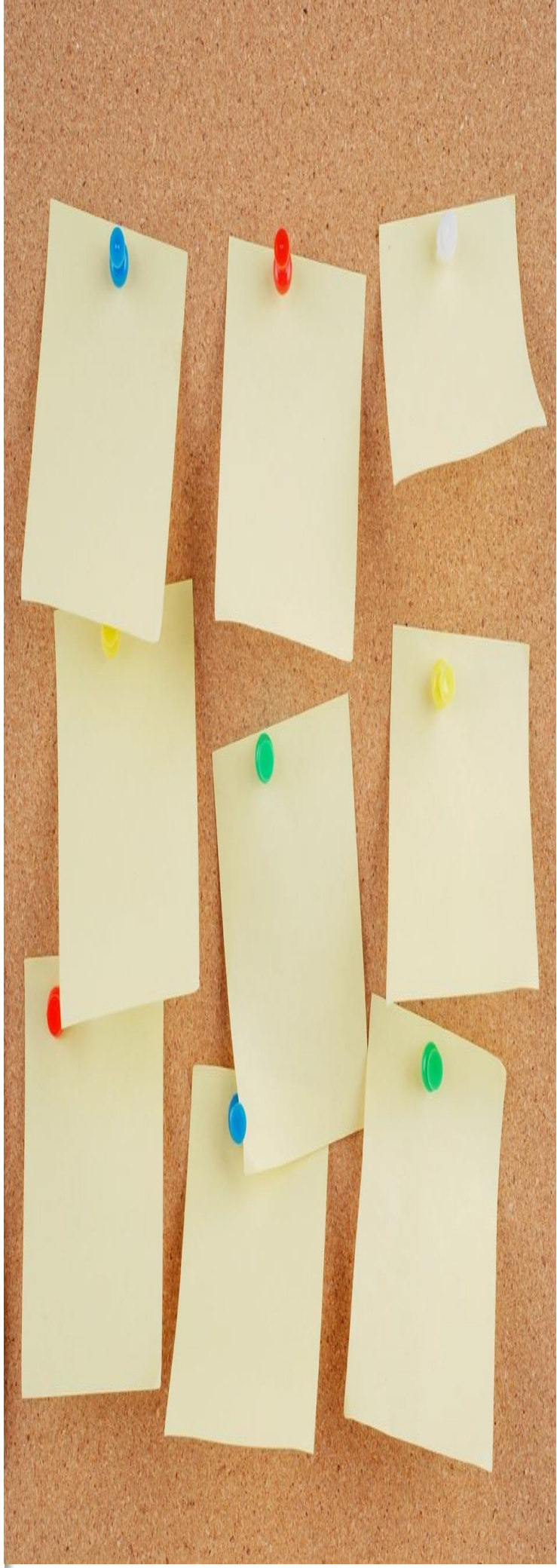
- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

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

Deloitte LLP

Deloitte LLP
Chartered Accountants
Edinburgh
20 June 2016

Appendices



Audit adjustments



Summary of uncorrected and corrected misstatements

Uncorrected misstatements

There have been one uncorrected misstatements noted during the course of the audit.

Description	Assets	Liabilities	Equity	Income Statement
	DR / (CR)	DR / (CR)	DR / (CR)	DR / (CR)
	£'000	£'000	£'000	£'000
Provisions		(7,500)		
Trade and other receivables	7,500			
Other Non-Clinical Services - Expenditure				7,500
Indemnity Scheme (CNORIS)- Income				(7,475)
Annually Managed Expenditure - Income				(25)
Total	7,500	(7,500)	0	0

The above uncorrected misstatement has arisen as a result of a clinical negligence claim being notified to NHS Grampian in May 2016 in relation to an incident that occurred pre year-end. The CLO has estimated the potential liability to be £7.5m based on the information they have at this time.

Under CNORIS, the Board is only liable for the first £25k of all claims, and the Scottish Government has confirmed that it would provide NHS Grampian Annually Managed Expenditure (AME) funding for this, therefore the overall net impact to the Board is nil and has therefore not been corrected by management.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. There were no disclosure misstatements noted in the course of our work.

Audit adjustments (continued)



Summary of uncorrected and corrected misstatements

Corrected misstatements

Description	Assets	Liabilities	Equity	Income Statement
	DR / (CR)	DR / (CR)	DR / (CR)	DR / (CR)
	£'000	£'000	£'000	£'000
Hospital and Community Health Services Expenditure				(250)
Hospital and Community Health Services Expenditure				475
Family Health Services Expenditure				212
Administration Costs				73
Other non-clinical services Expenditure				(475)
Trade and other payables		(35)		-
<i>being net adjustment for under accrued expenses</i>				
Trade and other receivables	35			
Other operating income				(35)
<i>being net adjustment for under accrued income</i>				
Total	35	(35)	-	-

- 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 £212k 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
 - Following approval on 26 May 2016, an additional payment is due in respect of Board Members roles as members of the IJBs, giving rise to additional costs of £73k. This has been back dated to 1 April 2015 and therefore an additional accrual was required.
 - Other accruals, an adjustment for £250k of over accrued expenses at year end has been proposed, following our testing of subsequent invoices received post year-end.
 - A reclassification adjustment between public health (part of other non-clinical expenditure) to Hospital and Community Health Services of £475k to better reflect the nature of the expenditure incurred.
 - Net adjustment to accruals of £35k, therefore has no impact on the Board's achievement of Net Saving against revenue resource limit.
- The adjustment to accrued income of £35k reflects additional income received post year-end relating to 2015/16 that had not been accrued.

Action Plan

Follow-up prior year recommendations

We have followed up our prior year recommendations and confirmed that appropriate action has been taken, as detailed below.

Area	Prior year observation	Management response	Current year progress
BCIS build cost indices	<p>We recommended that there should be 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.</p> <p>Risk priority: Medium</p>	<p>Agreement and corresponding justification of the valuation methodology was 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.</p> <p>Responsible person: Property Transactions Manager and Assistant Director of Finance</p>	<p>Following our review of the DV reports in the current year we can confirm that these recommendations have been taken on board with appropriate consideration of modern equivalent asset values and the use of Grampian BCIS' factors in their calculations for the current year.</p>
Modern Equivalent Asset (MEA)	<p>We considered 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</p> <p>Risk priority: Medium</p>	<p>See comment above.</p> <p>Responsible person: Property Transactions Manager and Assistant Director of Finance</p>	<p>See comment above. The optimised building size issue should continue to be reviewed as NHS Grampian may undertake an estates strategy which might identify the potential for optimising the use of assets.</p>
Journal Postings	<p>There were a number of actions which could be taken to reduce any inefficiencies when posting journals as mentioned in our 2014/15 report.</p> <p>Deloitte 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</p> <p>Risk priority: Low</p>	<p>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.</p> <p>Responsible person: Assistant Director of Finance</p>	<p>Deloitte attended the finance Best Practice Group to discuss these transaction insights which was enlightening for the finance team. It was agreed that Deloitte will continue to interact with the group in order to help identify further potential efficiency improvements.</p>

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 The audit fee for the year from 1 April 2015 to 31 March 2016 is £272,700 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. Non-audit services fees charged by Deloitte were £23,820 (inclusive of VAT), the details of which are shown in the table below.

Nature	Scope	Fee amount (inclusive of VAT)	Safeguard
Clinical governance arrangements	Independent review of the Board's Clinical Governance arrangements	£9,000	Independent team
Taxation advice	Specialist advice on the taxation liability related to Out of Hours Medical services provided by independent Medical Practitioners.	£8,820	Independent team
Endowment Fund	Specialist advice to the Trustees on the risks associated with the proposal to diversity the investment portfolio to include key worker housing.	£6,000	Independent team

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

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the NHS are shared below:

Perspectives: Health & Social Care - The great integration challenge

Bringing health and social care closer together has been a policy ambition for decades, yet it continues to be a challenge. This new piece discusses some of the key factors that affect integration and what can realistically be achieved. Read the full blog post here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/the-great-integration-challenge.html>

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

Publications

Decoding Digital Leadership

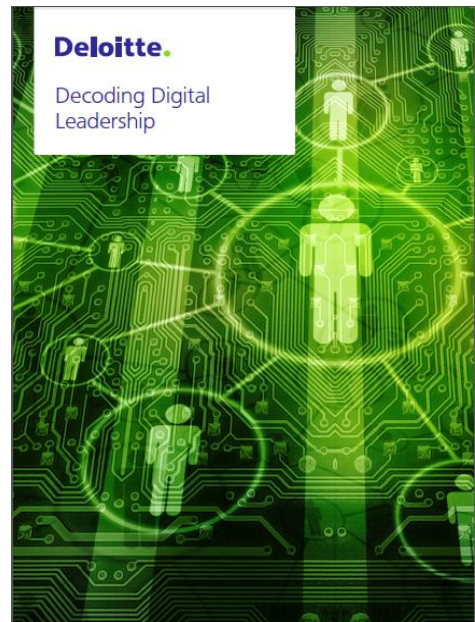
Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>





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