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# *NHS Tayside*

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

Year ended 31 March 2016

**21 June 2016**

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

The Audit Committee
NHS Tayside
Maryfield House
30 Mains Loans
Dundee
DD4 7AA

21 June 2016

Ladies and Gentlemen,

We are pleased to enclose our report to the Audit Committee in respect of our audit for the year ended 31 March 2016. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in February 2016. We have subsequently reviewed our audit plan and have added an additional elevated risk in relation to valuation of land and buildings. The significant and elevated audit risks and the procedures we have performed in response to these are detailed in Section 2.

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 21 June 2016. At the time of writing, due to timing, we have not yet completed the subsequent events review. We will provide a verbal update on these matters at the meeting.

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

Yours faithfully

PricewaterhouseCoopers LLP

# Contents

# Section 1. Executive summary

## Introduction

We set out in this report our significant findings from our audit of NHS Tayside ("the Board") for 2015/16, together with those matters which auditing standards require us to report to you as "those charged with governance" of the Board.

We carried out our audit work in line with our 2015/16 audit plan that we presented to you on 4 February 2016, except for the inclusion of an additional elevated risk in relation to valuation of land and buildings. This is explained further on page 8. Our audit is not designed to identify all matters that may be relevant to you. Accordingly, the audit does not identify all such matters. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Framework for Our Audit

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

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

## Respective Responsibilities of Management and Auditors

### *Management*

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

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Board and its expenditure and income for the year ended 31 March 2016; and
- preparing a Performance Report and an Accountability Report, consisting of a Corporate Governance Report and a Remuneration and Staff Report.

### *Auditors' responsibilities*

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

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the year;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We are also required to review and report as necessary on other information published within the Annual Report and Accounts , including the Performance Report and an Accountability Report consisting of a Corporate Governance Report and a Remuneration and Staff Report.

# Financial Statements

We have substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 21 June 2016.

# Financial performance

The Board achieved savings of £23.4m for 2015/16 (3.5%) short of its saving target of £27m (4.1%) as set out within the Board's Strategic Financial Plan for 2015/16.

Overall in 2015/16 the Board has delivered an overall surplus of £0.145m (2014/15: £0.058m) against its Revenue Resource Limit (RRL). However, to achieve this position the Board received £5m (2014/15 £14.2m) brokerage from the Scottish Government Health and Social Care Directorate (SGHSCD) in March 2016. The Board's outturn also benefitted from a change in funding for the injury benefits provision pre 2010. This change in funding, from core funding to non-core funding, was agreed with SGHSCD and released £5.6m of core funding to support the achievement of an overall surplus. Further details are set out commencing on page 19.
The Board's capital expenditure for 2015/16 totalled £11.090m, excluding capital grants. No surplus or deficit was reported against the Core Capital Resource Limit (CRL).

None of the brokerage funding of £15m received in prior years which was scheduled for repayment during the year was repaid.

# Strategic Financial Plan 2016/17

The Board's Local Delivery Plan submission to SGHSCD in May 2016 identifies a potential deficit of £11.65m for 2016/17. The efficiency savings target is set at £58.4m of which £5.966m remains unidentified. A number of the identified workstream programmes remain with a risk status of red. This status relates to both timing and delivery of the efficiency. The efficiency savings target of £58.4m represents 7.5% of the Board's core revenue resource limit. Whilst significant planning is being done by the Board to achieve these savings through the Transformation Programme it has instigated and also the traction it gained in containing costs in the latter part of the year, it will be a significant challenge for the Board to deliver savings of this unprecedented level. A range of National Initiatives may provide opportunities to close the identified gap through the work being undertaken on a Scotland wide basis. The target for 2016/17 is more than double the savings target for the previous year, which was not achieved by the Board. If the level of savings required are not achieved there is a significant risk that the Board's deficit will be larger than projected.

The Board enters 2016/17 with £20m (£5m from 2015/16 and £15m from 2014/15) of outstanding brokerage and is currently in discussions with SGHSCD on agreeing a repayment profile. In prior years asset disposals have been identified as key vehicles for repaying brokerage. However, within the 2016/17 financial plan receipts from property disposals are planned to contribute towards the in year 2016/17 position as distinct from repaying the outstanding brokerage. Within the draft Local Delivery Plan (LDP), the Board has risk assessed failure to make brokerage repayments during 2016/17 as “high”.

NHS Tayside has required to seek brokerage from SGHSCD to achieve a breakeven position for each of the last four financial years. Given this trend, coupled with the need to identify further savings and the reliance on property disposals, there is a risk that the financial plan for 2016/17 will not be achieved.

## Going Concern and Financial Sustainability

NHS Tayside’s 2015/16 accounts have been prepared on a going concern basis, that is, the Board expects to continue operations for the foreseeable future, which is at least twelve months from the accounts signing date. Auditing Standards requires auditors to consider if preparing the accounts on a going concern basis is appropriate. There is uncertainty over the financial sustainability of the Board as a deficit of £11.65m is projected for 2016/17 within the Board’s Local Delivery Plan, and a plan has not yet been agreed to repay the Scottish Government the £20m of outstanding brokerage.

Practice Note 10 issued by the Financial Reporting Council contains considerations for auditors of Public Sector bodies when considering the going concern perspective. It notes that in the public sector there is a general assumption that no part of the NHS will be allowed to cease operations other than by deliberate closure by central government. It also comments that for public sector bodies which have a statutory duty to break even that it may be appropriate to consider the financial performance of the entity, including the effectiveness of financial recovery plans. The Board is actively engaging in a five year transformation programme aimed at increasing the quality, safety and cost effectiveness of services to address the significant challenges it faces. However, this a medium to long term strategy and it is unclear how the Board will achieve a balanced outturn for the 2016/17 financial year as there are no specific plans in place to address the gap in the 2016/17 budget. The Scottish Government has also not formally indicated it will provide additional funding, either through an increased funding allocation or provision of additional brokerage to NHS Tayside.

***The Board should consider the implications of not setting a balanced budget for 2016/17 and the ramifications for the Health Board and future service provision if a balanced budget cannot be achieved. The Board should also seek formal clarification from the Scottish Government of the implications of the Board being unable to manage the current gap in the budget resulting in a deficit at year end.***

***Action 1***

## Auditor General – Section 22 report

In October 2015, the Auditor General for Scotland issued a Section 22 report (under the Public Finance and Accountability (Scotland) Act 2000) to the Scottish Parliament’s Public Audit Committee. The report was issued to draw Parliament’s attention to the financial challenges NHS Tayside faces in meeting its financial targets and specifically over its need for brokerage for three successive years to 2014/15 in order to break even. It highlighted the Board’s reliance on brokerage stems from overspends, and ongoing difficulty in selling a number of surplus properties meaning it has been unable to generate income from the planned sales.

Given that further brokerage has again been required in 2015/16 and no brokerage was repaid in 2015/16 , we would anticipate that the Auditor General for Scotland will present an updated Section 22 report to the Public Audit Committee in respect of the 2014/15 Annual Report.

## Audit Scotland

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

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

# Section 2: Significant audit and accounting matters

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

## Matters identified in our audit plan

We presented our plan to you in February 2016; we have reviewed the plan and have identified one additional area of elevated risk – valuation of land and buildings. We considered that due to its significance and significant judgement in its valuation that it merits to be an elevated risk rather than normal risk. This is explained further on page 8. Set out below is a summary of our response to matters identified in our audit plan and the additionally identified elevated risk of valuation of land and buildings.

| Matter arising | Significant / elevated risk | Audit response |
|---|---|---|
| ***Fraud and management override of controls***<br><br>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.<br><br>In any organisation, management may be in a position to override the financial controls that you have in place. The current economic conditions may also increase fraud risk. | ● | We tested high risk journals and identified the business rationale for these transactions.<br><br>We reviewed accounting estimates for bias and evaluated whether circumstances producing any bias represent a risk of material misstatement due to fraud. We performed detailed testing over estimates included in Enhancements During Leave (EDL) accruals, clinical negligence provisions, bad debt provisions and family health service accruals. Further detail on our work in relation to EDL accrual and clinical negligence provisions is provided commencing on page 10.<br><br>We performed unpredictability testing over Assets Held For Sale balance which is below our assessed level of performance materiality but is closely linked to management's plans for repaying brokerage and achieving financial sustainability. Further detail is provided commencing on page 13 below.<br><br>We did not identify any issues to report to you as a result of our work. |

| Matter arising | Significant / elevated risk | Audit response |
|---|---|---|
| ***Recognition of income and expenditure (Hospital and Community income and expenditure, Other Non-Clinical Services expenditure)***<br><br>Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that the Board could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.<br><br>Due to the majority of revenue being received directly from Scottish Government we extend this presumption to the recognition of expenditure in the NHS. | ● | We obtained an understanding of key revenue and expenditure controls.<br><br>We evaluated and tested the accounting policies for income and expenditure recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as adapted by the 2015/16 Government Financial Reporting Manual (FReM).<br><br>We reviewed intra NHS confirmations of balances and any disputed amounts to consider any implications on your accounts.<br><br>We performed detailed testing of revenue and expenditure transactions, focussing on the areas of greatest risk. Through sample testing we obtained comfort over different revenue and expenditure streams and for each transaction sampled we confirmed, with reference to supporting documentation, that the transaction was recorded at the correct value in the correct period and classified appropriately. In addition we identified high risk manual journals posted to revenue and expenditure accounts and identified the rationale for these transactions.<br><br>We did not identify any issues to report to you as a result of our work. |
| ***Risk of misstatement of Accruals – Enhancements During Leave (EDL) Accrual***<br><br>It was identified by management in 2014/15 that the requirements of NHS Circular *PCS (AFC) 2008/12 – Changes to the way staff are paid during annual leave* had not been fully complied with and therefore required to be remedied. Management recognised an EDL expense of £4.5million as at 31 March 2015. Further work undertaken by management has identified that further payments to staff are required to be made. | ● | We performed detailed testing over the EDL accrual and expense to understand and evaluate accuracy of management's calculation, considering the reasonableness of assumptions made.<br><br>We also considered work undertaken by Internal Audit.<br><br>Further detail on the work performed is given within the narrative commencing on page 10. |

| Matter arising | Significant / elevated risk | Audit response |
|---|---|---|
| ***Risk of incorrect accounting for fixed asset disposals***<br><br>The terms of the Board's brokerage relating to 2014/15 are such that the Board should repay in full the £14.2m in financial year 2015/16, with additional amounts outstanding from 2013/14. It was planned that this would be achieved through the sale of assets declared as surplus, and via clawback relating to a historic property sale. | ● | We performed detailed testing of fixed assets disposals recognised during the year. Through examining supporting documentation for the transactions we focused on ensuring the conditions of IAS 18 – Revenue Recognition and IAS 19 – Property, Plant and Equipment have been satisfied before revenue is recognised.<br><br>We did not identify any issues to report to you as a result of our work. |
| ***Risk of error in valuation of land and buildings***<br><br>Given that this balance forms a significant proportion of the Board's total assets (£478.2m of £602.2m) and is subject to estimation uncertainty, we have assessed there to be an elevated risk of error in the valuation of land and buildings.<br><br>The Board uses independent valuers, who conduct desktop and site valuations for the full land and buildings asset base. Given the size of the balance, we consider that a material error could be made either in the valuations process or in the application the revised valuations to the existing carrying values of the assets. | ● | We considered the expertise of the external valuer used by management.<br><br>We utilised PwC valuations experts to assess work performed by the independent valuers for a sample of the Boards fixed assets.<br><br>We reperformed a sample of revaluation transactions to determine whether management's calculations were accurate and reflective of the values instructed by the independent valuers.<br><br>We performed unpredictability testing over valuation and classification of assets identified as surplus within the Board's disposal plan.<br><br>We did not note any exceptions from our work. For our assessment of the assets held for sale balance, please refer to page 13. |

| *Wider Scope Audit Risk* | | |
|---|---|---|
| ***Financial sustainability***<br><br>There is unprecedented financial pressure on the NHS as a result of ever increasing demand during a period of financial austerity in UK public services.<br><br>This is leading to NHS Boards across the country finding it increasingly difficult to fill budget gaps through the identification of efficiency savings. As a result there is an increasing risk that financial statements could be manipulated through manual transactions to present compliance with RRL and CRL targets. | ● | We tailored our substantive testing programme to reflect the areas of risk such as cut off, provisioning, unrecorded liabilities and classification of expenditure as core Revenue Resource Limit (RRL) or non-core RRL funded.<br><br>We did not identify any issues to report to you as a result of these procedures.<br><br>We reviewed management's financial plans going forward to assess their robustness. We also considered management's arrangements to manage its future financial position.<br><br>The Board faces significant financial challenges in relation to identification of recurring savings, remaining within funding limits and repaying outstanding brokerage. The Board recognises this which is reflected by more realistic budgeting and increased focus on identifying and resolving areas of overspend. See further discussion commencing on page 19. |

# *Materiality*

We have conducted our work in accordance with the materiality levels detailed below. These levels have been updated since those reported in our audit plan to be calculated on actual expenditure in the year. We have applied a de-minimus level of £250,000 which was agreed with the Audit Committee upon submission of our annual audit plan.

| | **£** |
|---|---|
| **Overall materiality** – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments | £10,152,800 |
| **Performance materiality -** We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes | £7,614,600 |
| **De-minimus posting level -** Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a 'de-minimus' or 'clearly trifling' amount | £250,000 |

# *Accounting issues*

We have identified three accounting matters during the course of our work that we wish to draw to your attention.

## Enhancements During Leave (EDL)

*NHS Circular PCS (AFC) 2008/12 – Changes to the way staff are paid during annual leave* was issued in 2008 and changed the way in which staff are paid whilst at leave. Part of that agreement is that staff must be paid "as if at work" during periods of annual leave, such payments are referred to as Enhancements During Leave (EDL). The effective date for implementation was clarified as 1st October 2008 by a subsequent Scottish Government circular *CEL (31) 2011 – Annual leave policy*.

It was identified by Management during 2014/15 that the requirements of the circular had not been fully complied with and therefore required to be remediated.

As a result of the remedial action taken by Management, at the end of February 2015 approximately 1,700 staff had received payments totalling £1.66m dating back to 2010. Payments relating to periods prior to 2010 had not been made as data was not easily available. The Board therefore included an accrual to capture amounts not yet paid within the 2014/15 financial statements. The total EDL expense recognised in 2014/15 was £4.35m, £2.69m of which related to the accrual for payments not yet made. The total EDL expense recognised in 2014/15 was below our assessed materiality level.

Work undertaken by management during 2015/16 identified an additional EDL exposure of circa £5m taking the total EDL expense to £9.356m, of which £0.8m relates to financial year 2015/16. Taking together cash payments made during 2014/15 and 2015/16, to date a total of £5.480m has been paid in relation to years 2008-2015. Therefore, to cover payments not yet made, an accrual of £3.516m relating to a seven and a half year period covering 1 October 2008 to 31 March 2016 is recognised within the 2015/16 financial statements.

Whilst the total expense (£5.006m) included within 2015/16 financial statements is below our assigned level of performance materiality, given the financial challenges facing the Board, we have assessed the recognition of EDL arrears to be a significant risk. Through our audit procedures we have evaluated the entire EDL expense of £9.356m that has been recognised within the 2014/15 and 2015/16 financial statements. The table below sets out a summary of our procedures and finding from our work.

**Table 1: Summary of procedures performed over EDL**

| Matter | Description of PwC procedures performed | Results of procedures performed |
|---|---|---|
| ***Calculation methodology***<br><br>For years 2008-2015 management has performed an individual calculation for each employee based on extrapolating "enhanced" hours recorded in SSTS during periods worked over the employee's contractual entitlement of annual leave.<br><br>For periods where no SSTS data was available a closest useable average from SSTS data has been used.<br><br>Value of arrears due has been established through comparison of difference between expected enhancements during annual leave and those already paid. | We manually reperformed a sample of management's calculations at individual employee level evaluating accuracy of the calculations, robustness of the methodology and design of the key controls that management has implemented. | We noted no exceptions from the testing performed. |
| ***Accuracy and completeness of SSTS data extracts used***<br><br>For the above calculations management extracted SSTS timesheet data with automated queries based on scripts. | We evaluated the accuracy and completeness of SSTS data extracts through agreeing a sample of SSTS data points extracted back to the source system. | We noted no exceptions from the testing performed.<br><br>We, however, note that it has not been possible for either management or us to confirm the accuracy of annual leave hours recorded within SSTS. This is because historical annual leave records are not systematically retained, thereby making it impossible to check annual leave hours recorded in STSS to source documentation. This matter was raised by internal audit during 2014/15 within report T23A/15. |
| ***Completeness of EDL calculation***<br><br>For recognition of the complete EDL expense, it is important to verify that all impacted staff members have been identified.<br><br>As a part of the EDL project management has considered all employees, excluding medical staff who are outside the scope of agenda for change contracts. Management has created an EDL record for each employee considered. | We tested a sample of staff members denoted by management as "no further action required" in order to validate whether an EDL expense should have been recognised for them. | We noted no exceptions from the testing performed. |
| ***Recognition of 20% employer on-cost***<br><br>Management has added an additional 20% employer on-cost to account for pension and national insurance costs. | We have evaluated appropriateness of the 20% cost based on historical pension and national insurance costs. | We consider the 20% employer on-cost recognised to be appropriate. |

| Matter | Description of PwC procedures performed | Results of procedures performed |
|---|---|---|
| ***EDL expense recognised in relation to staff who have retired or left employment***<br><br>Management has calculated the EDL arrears due for each leaver and retiree by following the same calculation method as for active staff members.<br><br>Management has applied percentage modifiers ranging from 20% to 80% to reduce the value of EDL arrears recognised for leavers and retirees based on which year the staff member left NHS Tayside. After the modifiers have been applied, £1.052million has been accrued for leavers and retirees.<br><br>The estimate has been made as management does not believe that all leavers and retirees will be successfully contacted. | We have evaluated the difference between recognising full calculated EDL expense in relation to leavers & retirees and the expense recognised by management. | If 100% of payments were made an additional £0.698m would need to be accrued at 31 March 2016. Although overall not material to the financial statements, this amount is greater than the Board's surplus for the year.<br><br>Every reasonable effort should be made by the Board to contact this group of people to fulfil their obligations to its former employees. We acknowledge that similar past exercises both within the Board and experiences at other Boards show that it will be extremely unlikely that payments will be made to all leavers and retirees, however, it should be noted that there is no robust historical or comparable data to support the percentage modifiers applied. It is not possible to make an accurate estimate at this time of the unsuccessful portion. |
| ***Recognition of EDL expense for 2015/16***<br><br>Management recognises that issues with compliance extend to 2015/16 and has therefore estimated an EDL expense of £0.667m (£0.8m including employer on-cost) for 2015/16.<br><br>Management has not undertaken detailed calculations to arrive at the 2015/16 figure but considers that the annual EDL expense should have decreased due to significant internal profile of the matter having enforced improved compliance. | We evaluated the cost recognised for 2015/16 in comparison EDL costs calculated for prior years.<br><br>We evaluated a sample of SSTS timesheets for 2015/16 to determine whether levels of compliance have consistently improved. | We note that the cost estimated for 2015/16 is £0.288m lower than that calculated for 2014/15 and £0.319m lower than the average annual cost recognised during the 2008/09-2014/15 period.<br><br>Our evaluation of a sample of 2015/16 timesheets resulted in varied levels of compliance being noted. We are therefore unable to conclude that compliance has consistently improved. Management have taken steps to conclude that they believe that compliance has improved to support the judgements they have reached. |

NHS Tayside is not the only Health Board that has had to make retrospective payments to ensure compliance with the pay circular. To allow for a prospective resolution, another NHS Board has requested development of an enhancement to STSS that allows for automated calculation of enhancements for annual leave periods. Management at NHS Tayside recognises that the implementation of the new STSS functionality is a priority and as the key method for ensuring compliance in future periods.

This is not material to the financial statements, however, the Board should be aware that there is a risk the final payment could differ from the level accrued in that it could be higher, or lower.

***In financial year 2016/17 Management should perform detailed calculations at an individual employee level for EDL arrears arising in 2015/16 and 2016/17. Management should prioritise testing and implementation of the enhanced SSTS functionality across all wards.***

***Action 2***

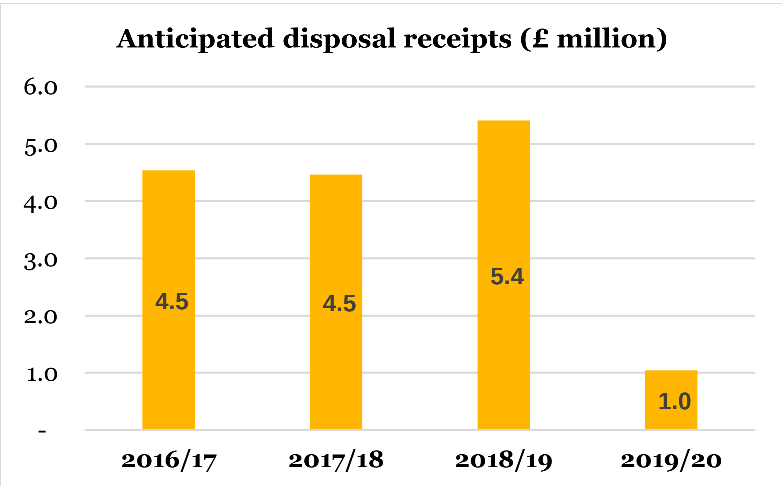
## Assets identified as held for sale and disposal plan

The Board's asset disposal strategy is a key element of the work towards reaching a breakeven financial position. This recognises both the impact of the reduced footprint and the consequential recurring revenue benefits but also the asset disposal receipt. Compliance with IAS 18 – Revenue Recognition, IAS 16 – Property, Plant and Equipment, and IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations presents a risk in terms of the judgment required and the special conditions associated with NHS assets. Due to the importance of the asset disposal strategy in the context of repaying brokerage and in reaching breakeven positions in the future, additional audit focus has been focussed in this area.

Our audit procedures performed are summarised below:

- We obtained an understanding of the 5 year asset disposal strategy.
- We evaluated Assets Held for Sale in detail. In our review of the balance we identified assets that had been listed as held for sale for up to five years. We reviewed the listing with reference to the disposal strategy, noting the complexity of estimating when sales can be completed.
- We performed detailed testing over assets disposed in the year. We ensured the transactions were recorded in accordance with the relevant standards.
- We employed our internal experts to assess the valuation exercise performed over the fixed assets held by the Board, and evaluated the Board's impairment assessment.

The Board maintains a rolling five year asset disposal strategy which is designed to bring the portfolio of assets to a profile in keeping with the activities of the Board. This is done by targeting assets such as tenanted residential properties, surplus land, and buildings no longer fit for purpose. The expected receipts per the asset disposal plan are outlined in the figure below:



Three disposals were completed in the year (summarised in table below). Planning permission was also received for Liff Fields concluding outstanding conditions for this sale. The disposal of Ashludie Hospital in the year completes the disposal of the full Ashludie site, which had a book value of £0.75m. In conjunction with the sale of Ashludie, the IT Centre in Monifieth (net book value of £0.05m) was also sold. The two sites generated £5.3m in receipts, representing a gain on disposal of £4.5m. In addition to the Ashludie transactions, a residential property in Perth was sold, generating receipts of £0.275m.

**Table 2: Summary of asset disposals during 2015/16**

| Site | Book value | Receipts | Gain on disposal | Time of sale |
|---|---|---|---|---|
| Ashludie hospital and Monifieth IT Centre | £0.8m | £5.3m | £4.5m | Oct 2015 |
| Perth residential property | £0.125m | £0.275m | £0.15m | Aug 2015 |

A total of 24 properties and sites are classified as Assets Held for Sale, with a total carrying value of £4.9m, which is below our assessed level of performance materiality. We have noted that the Board anticipate receipts of £7.6m from the sale of these assets. The Board's accounting policy states that assets will be reclassified as Held for Sale when the following criteria have been met:

- the asset is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales;
- the sale must be highly probable i.e.:
    - management are committed to a plan to sell the asset;
    - an active programme has begun to find a buyer and complete the sale;
    - the asset is being actively marketed at a reasonable price;
    - the sale is expected to be completed within 12 months of the date of classification as 'Held for Sale'; and
    - the actions needed to complete the plan indicate it is unlikely that the plan will be dropped or significant changes made to it.

The assets currently disclosed as held for sale are outlined in the table below:

**Table 3: Assets currently classified as Assets Held for Sale**

| Site | Carrying value (£000's) | Expected sale | Policy criteria not met | Current status |
|---|---|---|---|---|
| Sunnyside | 900 | 2016/17 | - | Offer has been received and is being considered along with the payment profile. |
| Liff surplus land | 850 | 2016/17 | - | On the market, demolition of building on site ongoing to increase marketability. |

| Site | Carrying value (£000's) | Expected sale | Policy criteria not met | Current status |
|---|---|---|---|---|
| Little Cairnie | 250 | 2016/17 | - | Sale is in progress with closing date in May 2016. |
| Panmure House | 200 | 2016/17 | - | Sale is in progress with closing date in May 2016. |
| Coupar Angus Health Centre | 145 | 2016/17 | - | Marketing of the property begun in April 2016. |
| Kenmore House | 110 | 2016/17 | - | Currently being surveyed. |
| 27 Gannochy Road | 100 | 2016/17 | - | Currently being surveyed. |
| Ninewells surplus land | 33 | 2016/17 | - | Discussions ongoing with potential buyer. |
| Douglas Clinic | 20 | 2016/17 | - | Currently being marketed. |
| Kings Cross Hospital Railway Cottage | 19 | 2016/17 | - | Currently being marketed. |
| Brechin Infirmary (land plot) | 15 | 2016/17 | - | Currently being marketed. |
| Montrose Chapel Bond | 10 | 2016/17 | - | Change of use process ongoing. Discussions with third party developer ongoing concerning access. |
| Longcroft | 0 | 2016/17 | - | Path access being negotiated with Dundee City Council. |
| Orleans Day Hospital | 0 | 2016/17 | - | Discussions ongoing with Dundee City Council over potential sale. |
| Wedderburn House | 500 | 2017/18 | 1, 5 | Work ongoing - not currently marketed to the public. Public marketing will begin in June 2016. |
| Murray Royal Hospital (north site) | 793 | 2017/18 | - | The Murray Royal site has been split in two to increase marketability. Pitcullen has a pending planning application which is in relation to an access road that will serve the new Murray Royal site. This is done to enhance marketability. |
| Murray Royal Hospital (Pitcullen House) | 75 | 2016/17 | - | |
| Bridge of Earn Clinic | 90 | 2017/18 | 1, 3, 5 | Work ongoing - not currently actively marketed. |
| Hawkhill Day Hospital | 60 | 2018/19 | 1, 5 | Work ongoing - not currently marketed to the public. |
| Whitehills Lodge House IT | 99 | 2016/17 | - | Discussions with neighbouring PFI provider on property boundaries. |
| 5 Buchanan Place | 94 | 2016/17 | - | Currently being surveyed. |

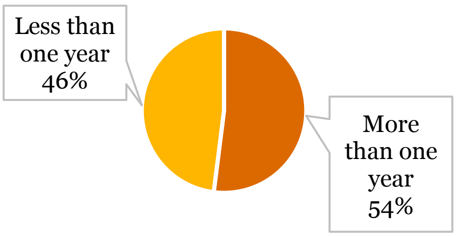
| | | | | |
|---|---|---|---|---|
| Dundonnachie House | 65 | 2016/17 | - | An offer has been accepted, handover date in June 2016. |
| Constitution House | 325 | 2017/18 | 1, 5 | Work ongoing - not currently marketed to the public. |
| Aberfeldy Cottage Hospital | 151 | 2017/18 | - | In a land tribunal for change of use. |

| **Key for IFRS 5 classification criteria:** |
|---|
| 1 = Availability for sale in present condition |
| 2 = Management commitment |
| 3 = Active sales programme |
| 4 = Reasonable price |
| 5 = Sale expected within a year |
| 6 = Significant changes unlikely |

With reference to the criteria detailed in IFRS 5 and the Board's accounting policy, we assessed whether the disclosure as held for sale was appropriate. We found that 4 of the properties did not fully meet the IFRS 5 criteria and the Board's stated policy. The three recurring criteria not met were the availability for sale of the asset in present condition (for instance, where sales are contingent on planning applications or demolition is in progress), listing the asset for sale and actively marketing it, or expecting the sale to conclude within a year of classification as held for sale.

We assessed the amount of time assets listed as held for sale had been disclosed as such. This is outlined in the figure below:

**Age of Assets Held for Sale**




| First listed as held for sale | Years held for sale | Number of assets |
|---|---|---|
| 2015/16 | <1 | 12 |
| 2014/15 | 1-2 | 3 |
| 2013/14 | 2-3 | 7 |
| 2012/13 | 3-4 | 0 |
| 2011/12 | 4-5 | 3 |

Thirteen of the properties have been held for sale longer than the one year (with extensions available) guidance of IFRS 5, with three properties listed for over four years. This is a reflection of the significant work required, along with prolonged legal procedures that are associated with the sale of some of the properties. This does not necessarily mean aged assets should be removed from the listing, but management should regularly assess whether the assets disclosed as held for sale meet all IFRS 5 criteria. Assets Held for Sale are not depreciated, therefore, any reclassification of assets would increase the depreciation charge of the year, which is funded through non-core funding. The financial impact of any additional depreciation charges would not be significant.

***Whilst there is no significant impact on the financial outturn of the Board, Management should regularly undertake a review of the assets held for sale listing in order to ascertain that all conditions of IFRS 5 are met and the assets disclosed as held for sale are appropriate.***

***Property receipts do form part of the future income of the Board and therefore it is important that the anticipated value and timing of the sales are closely monitored to ensure they remain realistic.***

***Action 3***

# Accounting for Clinical Negligence Provisions

NHS Tayside participates in the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS). Employing health bodies in Scotland are responsible for meeting negligence costs up to a £25k threshold per claim. Costs above this threshold are reimbursed to Boards from a central fund held as part of the CNORIS scheme by the Scottish Government. The negligence provisions, and where the case value exceeds £25k the associated receivables, are created based on case values and estimated risk ratings advised by the Central Legal Office (CLO).

## *Reversal of unutilised provisions*

NHS Boards Accounts Manual prescribes that the creation of a new negligence provision, and where applicable, the associated receivable, is funded from annually managed expenditure (AME), which is non-core funded. Consistently, the manual prescribes that the reversal of unutilised provisions should be credited to AME.

We identified 37 cases for which reversal of unutilised provision had been credited to general ledger accounts disclosed as core, rather than AME funded. For all of the cases, reversal of the associated debtor balance had also been journalised into a core funded general ledger account.

The above matter has no impact on the net operating costs disclosed within the Statement Of Comprehensive Net Expenditure (SOCNE). However, within the Summary Of core revenue Resource Outturn (SORO) total core expenditure was understated by £0.252m and total non-core expenditure was overstated by £0.252m. The Board has corrected this misstatement in its final accounts.

## *Creation of provisions based upon CLO risk categories*

The NHS Boards Accounts Manual advises that a 100% provision should be made against cases risk assessed by the CLO as category 3, with a 50% made against category 2 cases and no provision made against category 1 cases. The balance not provided for should be disclosed as a contingent liability. The same process should be followed for the debtor balances recognised in excess of the £25k threshold.

We noted that currently NHS Tayside provides 10% against category 1 cases and discloses 90% of the case value as a contingent liability. The Board can demonstrate that payments have been made against Category 1 cases during 2015/16 and on that basis provide for 10% of cases to be prudent.

***The Board should review its CNORIS accounting practises to ensure that reversal of unutilised provisions is recognised against annually managed expenditure.***

***Action 4***

# Misstatements and significant audit adjustments

We report to you all misstatements that we have found during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements. There are no uncorrected misstatements to bring to your attention.

# Qualitative aspects of accounting practices

## *Improving the quality of NHS accounts – governance statements*

In May 2016 Audit Scotland published good practice note *'Improving the quality of NHS accounts – governance statements'*. The overarching objective of the publication was to help all boards improve the disclosures included in the governance statements to meet the requirements of the Scottish Public Finance Manual (SPFM). Audit Scotland identified the following main areas for improvement:

- The format and structure of the statements could be improved
- The content could be improved by achieving the right balance in the type and amount of information provided to satisfy the requirements; and
- Identification of significant risks facing the board

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

## *Financial statement disclosures*

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

## *Governance Statement*

The Financial Reporting Manual requires Chief Executives to sign the Accountability report, which now incorporates the Governance Statement covering all controls including financial, operational, compliance and the management of risk. The Scottish Government Health and Social Care Directorate (SGHSCD) has issued guidance on Governance Statements within the NHS Board Accounts Manual to help Chief Executives prepare their Board's Governance Statements.

We reviewed the governance statement and considered the following:

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

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

# Section 3. Financial performance

## Financial targets

It is a statutory requirement for the board to ensure that its expenditure is within the Revenue Resource Limit (RRL) and Capital Resource Limit (CRL) set by the SGHSCD. The board's final RRL (£764.161 million) and CRL (£11.090 million) allocation for 2015/16 was notified by SGHSCD on 16 May 2016.

NHS Tayside budgeted a breakeven position against the CRL for the year to 31 March 2016. The final out-turn was a surplus of £0.145m after the receipt of £5.0m brokerage and after the Board benefitted from a change in funding for an existing injury benefit provision created before 2010. An additional allocation of £5.6m SGHSCD non-core funding was received to fund existing provisions for Injury Benefits. This allocation released core funding of the same value to support the bottom-line position.

The Board's performance against its three financial targets for financial year 2015/16 is set out below:

**Table 4: Financial targets summary 2015/16**

| | Core revenue resource limit £million | Non-core revenue resource limit £million | Capital resource limit £million |
|---|---|---|---|
| **Initial allocation** | 759.161 | 44.858 | 11.090 |
| **Outturn against initial allocation** | 764.019 *(£4.858 overspend)* | 44.858 *(balanced)* | 11.090 *(balanced)* |
| *Brokerage received* | 5.000 | - | - |
| **Adjusted allocation** | 764.164 | - | - |
| **Reported final outturn against adjusted allocation** | 0.145 *(saving)* | 0.000 *(balanced)* | 0.000 *(balanced)* |

Prior to receipt of brokerage the Board presents an overall overspend position of £4.858m. Main contributory pressures include capacity and workforce issues, escalating prescribing costs, the financial impact of national performance targets, and the balance of savings to be identified. Key areas of expenditure in excess of planned levels which led to this position are outlined below:

- Medical group overspend of £7.028m. Overspend in this group has increased from prior year (£2.159m in 2014/15).
- Surgery and Theatres Group overspend of £6.639m. Overspend in this group has increased from prior year (£3.693m in 2014/15).
- Specialist Services Group overspend of £2.934m.
- Perth and Kinross CHP overspend of £2.856m.

Upon incorporation of brokerage from SGHSCD the net effect against RRL and CRL as shown in the table above is an overall underspend position of £0.145m (2014/15 £0.062m).

# Financial flexibility (brokerage)

2015/16 represents the fourth consecutive year in which the Board has received brokerage. Table 5 below sets out the brokerage obtained by the Board to date and the repayment arrangements in place.

**Table 5: Brokerage summary 2015/16**

| Year | Brokerage received | Details of Brokerage received | Repayment details |
|---|---|---|---|
| 2015/16 | £5.0 million | Brokerage was allocated to help the Board meet financial commitments due as a result of additional EDL exposure of £5 million and increased costs resulting from Treatment Time Guarantee, prescribing and workforce pressures. | £15m of brokerage remained unpaid as at 31/03/2016, in addition to the £5m received for 2015/16.<br><br>The Board is currently having ongoing discussions with SGHSCD on the repayment profile. Of note, within the Financial Plan 2016/17, the Board identifies asset receipts from property disposals as contributing towards the in year 2016/17 position as distinct from repaying the outstanding brokerage. |
| 2014/15 | £14.2 million | Brokerage was allocated to help the Board meet financial commitments due as a result of EDL payments and overspends in operational areas. | Full amount due for repayment in 2015/16 raised through proceeds from sale of surplus properties. |
| 2013/14 | £2.85 million | Received on the strength of planning delays associated with four former healthcare sites declared as surplus. | Repayment of £2.05m made in 2014/15. Remaining £0.8m to be repaid in 2015/16. |
| 2012/13 | £2.25 million | Received to support deferred income for sales made in the year and to cover the impairment which was charged in the year. | £0.25m repaid in 2013/14, the balance of £2m in 2014/15. |

The brokerage arrangement agreed with the SGHSCD has been appropriately disclosed in the Performance Report and Governance Statement within the 2015/16 financial statements.

# Change of funding for historical injury benefits provisions

During the year the Board and the SGHSCD agreed a retrospective funding change for old injury benefits provisions. In accordance with the NHS Manual of Accounts, creation of provisions prior to 31 March 2010 has been funded from core (RRL) budget and after 31 March 2010 from non-core (annually managed expenditure, or AME) budget.

The Board and the SGHSCD agreed that NHS Tayside should treat pre-2010 injury benefits provisions in line with the current model of being funded from AME budget. During 2015/16 this retrospective funding change resulted in a reduction of £5.6 million of expenditure against the RRL with a corresponding increase in AME funding. This funding change had no impact on value of the provision recognised on the balance sheet.

The funding arrangement agreed with the SGHSCD has been appropriately disclosed in the Performance Report within the 2015/16 financial statements.

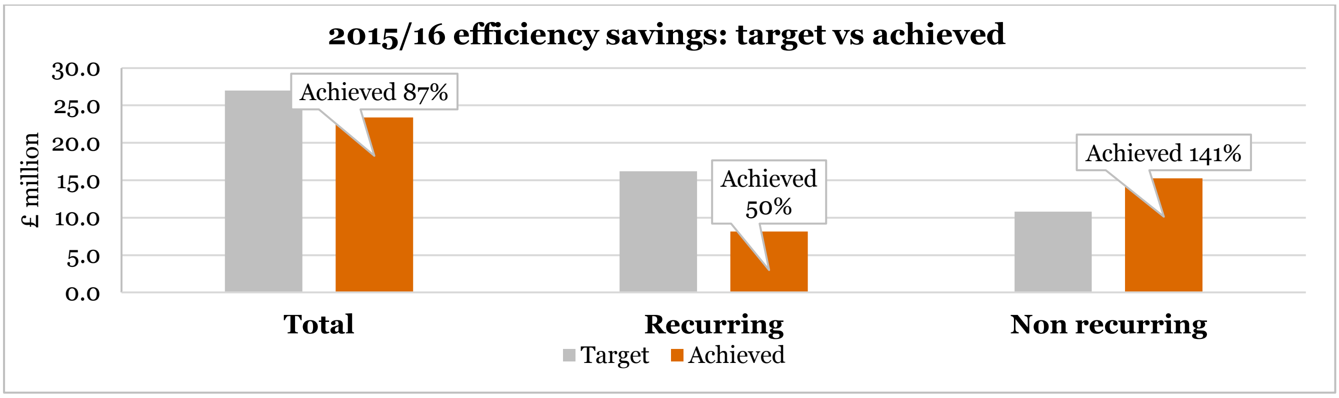
# Efficiency savings

The Board achieved savings of £23.4m for 2015/16 (3.5%) short of its saving target of £27m (4.1%) as set out within the Board's Strategic Financial Plan for 2015/16. The sources through which the Board has achieved these efficiencies are set out below:

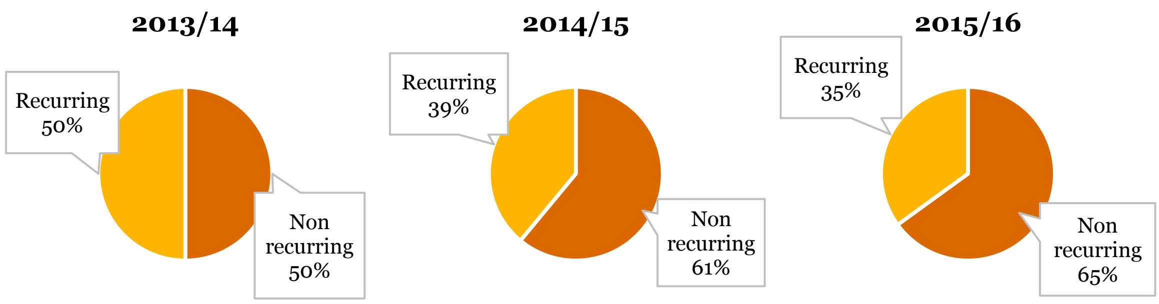
**Table 6: Efficiency savings 2015/16**

| Efficiency and productivity workstream | Recurring £million | Non-recurring £million | Total £million | % of Total |
|---|---|---|---|---|
| Service Productivity | 2.693 | 5.857 | 8.55 | 37% |
| Drugs and Prescribing | 1.05 | 1.95 | 3 | 13% |
| Procurement | 1.25 | 0 | 1.25 | 5% |
| Workforce | 2.54 | 5.86 | 8.4 | 36% |
| Support Services (non-clinical) | 0.315 | 0.585 | 0.9 | 4% |
| Estates and Facilities | 0.285 | 1.015 | 1.3 | 6% |
| **Totals** | **8.1** | **15.3** | **23.4** | **100%** |

87% of the annual savings target of £27m was achieved. The graph below sets out the achieved savings, split into recurring and non-recurring savings, against the targets set within the 2015/16 financial plan.




Of the £23.4m savings achieved, £15.3m (65%) was attributable to non-recurring savings, compared to 61% in 2014/15. This corresponds to 50% of the targeted recurring savings of £16.2m highlighting the difficulty that the Board is facing with achieving recurring savings. The graph below sets out the percentage of savings classified as recurring and non-recurring over the prior three years.




# *Financial sustainability*

In recent years NHS Boards in Scotland have faced significant challenges in delivering healthcare services amidst continued financial pressures. Audit Scotland's publication '*NHS in Scotland 2015*' recognises the difficulties caused by the focus on meeting annual targets and the extent to which this focus can hinder the longer term financial planning process. The overarching recommendation for NHS Boards is in relation to a strengthened approach to long term financial planning, considering in detail the resources required to implement service changes.

In light of this, financial sustainability has become a key matter for consideration by Boards and it is vital that consideration of longer term financial plans has taken place. In assessing financial sustainability we consider the board's financial performance, financial planning, capital programmes and workforce management.

## Financial planning for 2016/17 and beyond

The Board is required to prepare a Local Delivery Plan (LDP) each year which aligns strategic priorities with financial plans, workforce plans and asset plans. The Financial Framework supporting the LDP for 2016/17 identifies the following key areas of income and expenditure:

**Table 7: 2016/17 Financial Framework**

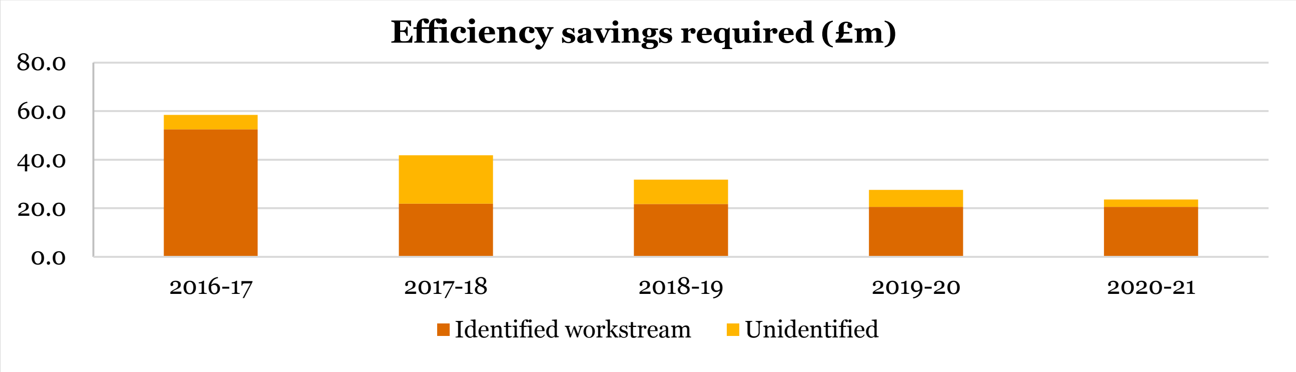
| NHS Tayside | **2016/17 Projected £ million** |
|---|---|
| Core Revenue Resource Limit | 777.6 |
| Non- Core Revenue Resource Limit | 31.9 |
| Primary Care Services (Non-discretionary) | 42.6 |
| **Total Resources** | **852.1** |
| Total Expenditure for Operational Unit | 711.0 |
| Other expenditure | 148.5 |
| Contingency | 4.3 |
| **Total expenditure** | **863.8** |
| **Financial (deficit)/surplus** | **(11.7)** |

### *Efficiency savings required*

Within NHS Tayside's Financial Framework 2016/17 to 2020/21, submitted to the Finance and Resources Committee in March 2016, a savings target of £58.4m is identified for 2016/17. Of the required efficiencies, the Board has assessed that approximately £8.0m relates to supplementary pay costs and the requirement for NHS Tayside to alter existing spend pattern on un-budgeted use of agency, overtime and nurse bank staff. Other savings are expected to be delivered from efficiencies in areas including drugs and prescribing, procurement and workforce. £7.048m of the £58.4m efficiency target for 2016/17 are assessed as high risk. As at May 2016, £5.966m of required efficiency savings were classified as "Unidentified".

Reflecting the risk profile of savings, and utilising the flexibility of the asset disposal receipts to offset that risk in part, then currently a year end deficit of £11.65 million is identified for 2016/17. A range of efficiency savings initiatives are being pursued nationally that the Board expect to provide benefits in both 2016/17 and beyond. Balanced budgets are planned for the remaining years.

The Board has identified that in order to be in a long-term financially sustainable position, it must realise efficiencies of £175 million, or 5% of its Revenue Resource Limit, over the next five years. The value and split of the required efficiency savings over the 5-year period is shown with the graph below.




The Board recognises its historical shortfalls in delivering a high level of recurring savings on an annual basis. NHS Tayside's Transformation Board has a key role directing the long-term sustainable change that delivers savings in the context of challenging demographic changes. The Board acknowledges the significant challenges it faces. The Board has established a work programme for seven streams and progress on the individual elements will reported through the Transformation Board and escalated up to Tayside NHS Board.

The most significant elements of savings planned for 2016/17 are summarised below.

**Table 8: Progress of key elements identified for delivering savings in 2016/17**

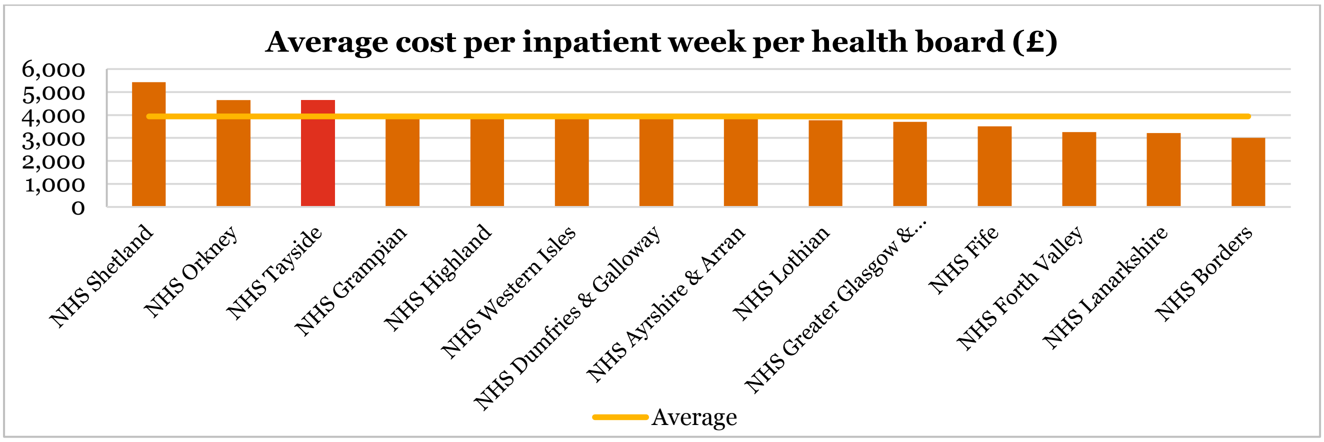
| Element | Target | Progress |
|---|---|---|
| Staff turnover | £8.5m | Delivering |
| FHS General Initiatives & Prescribing | £4.5m | Planning Started |
| Receipts generated from property disposals | £4.5m | Plan in Place |
| More efficient staff rostering | £4.5m | Planning Started |

## *Financial planning for achieving long term financial sustainability*

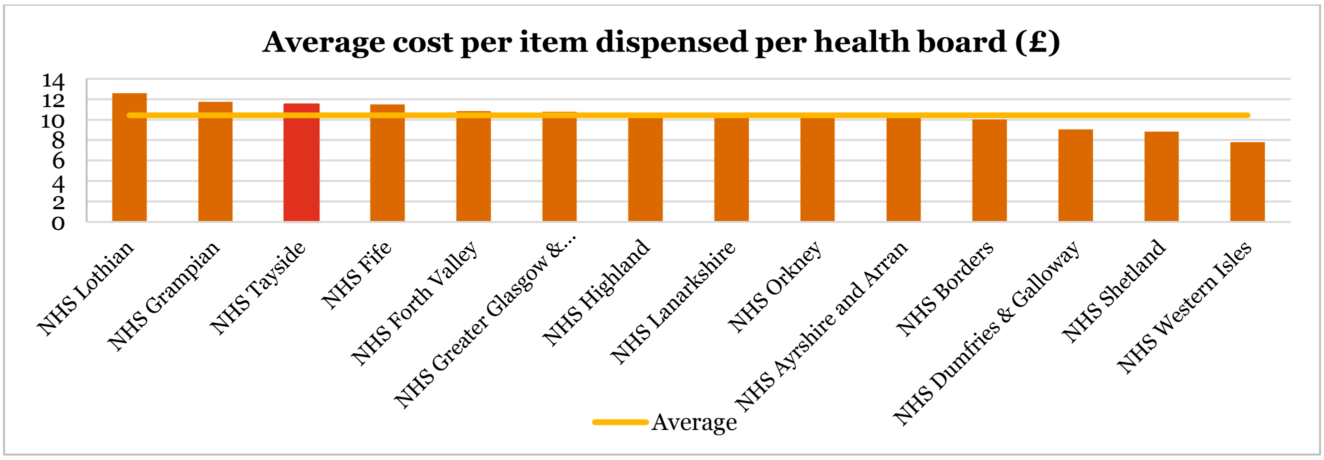
As outlined above, the Financial Framework 2016/17 to 2020/21 identifies a £11.65 million deficit for 2016/17 with balanced budgets being planned for the remaining years. A contingency of £4.3m is included for 2016/17 and of £3m for each of the remaining years. The higher level of contingency in 2016/17 is intended to reflect the financial implications of the window replacement programme on the Board's Mental Health sites. The remainder of the Board Contingency is intended to address in year pressures and emerging risks.

Within the Financial Framework for 2015/16 to 2019/2020, which we reviewed during prior year, balanced budgets with £1.5m contingencies were planned for all years (including 2015/16). The identification of a deficit of £11.65m for 2016/17 and the increased contingency levels within the current Framework highlight the Board's self-assessment of the significant levels of financial pressures that it is facing thus resulting in a more transparent financial plan having been prepared.

NHS Tayside currently has an expensive operating model that results in inpatient costs per week being third highest in Scotland and above the national average. This is visualised within the graph shown below.




The Board also recognises, and highlights within the Financial Framework 2016/17 to 2020/21, the significant cost pressures facing the Board going forward arising from escalating prescription costs. The graph shown below demonstrates that prescription costs for NHS Tayside are currently third highest in Scotland and are above the national average.




The Board recognises that significant effort is required in order for it to achieve the planned outturns for 2016/17-2020/21 and long term financial sustainability. In response to this NHS Tayside has set up seven workstreams which are:

- Workforce;
- Realistic Medicine;
- Facilities & Estates;
- Better Buying & Procurement;
- Repatriation,
- Service Redesign, and
- Property

The Board assesses the following areas as key for presenting opportunities for cost reduction:

- Reducing agency and overtime costs. SGHSCD has launched a new initiative aimed to help Boards develop and implement nationally agreed best practice to manage the use of temporary agency staff and reduce overall costs.
- Improved rostering of nursing staff to make more efficient use of the resources reducing dependency on expensive agency and bank staff and overtime.
- Rationalisation of property base to allow for repayment of brokerage and reduction in estate running costs.
- Reducing costs arising from delayed discharges. SGHSCD has announced a national investment of £30m aimed at reducing delayed discharges. Tayside's share of this is £2.358m which will be allocated across the Integrated Joint Boards (IJB).
- Level of Administration & Clerical resource within Tayside is significantly higher than at other health boards. An Administration & Clerical review has been formally instructed by the Chief Executive.
- Opportunities exist for savings to be made from avoidance of unnecessary or duplicated investigations and diagnostic tests. The Board recognises that this will require a significant cultural shift.
- As outlined above, NHS Tayside has high prescribing costs and the Board continues to recognise this as an important area within which cost reductions can be made. It is important to note that a change in prescribing patterns too will require a significant cultural shift.

The Financial Framework 2016/17 to 2020/21 recognises that significant recurring pressures, including capacity issues, increasing demand and changes in legislation that require increased cost commitment, are outwith the direct control of budget managers.

## *Capital Planning*

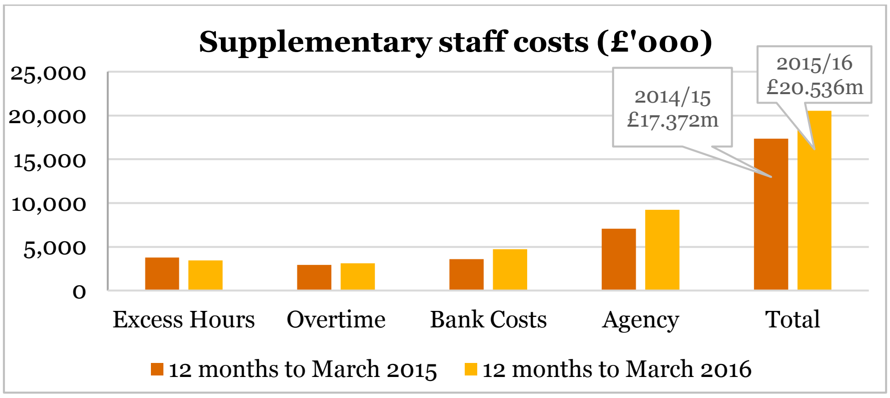
Capital funding and expenditure of £17.475m is budgeted for 2016/17. The main areas in which capital expenditure will be incurred will be statutory compliance and backlog maintenance, medical equipment rolling replacement programme, acquisition of a radiotherapy PET scanner and a medical instrument washer for Central Decontamination Unit at Ninewells.

Longer term over the 2017/18-2020/21 period key capital projects include Ninewells infrastructure works and projects for neonatal intensive care unit, interventional radiology, and critical care unit. It is expected that the projects will be supported by additional SGHSCD funding.

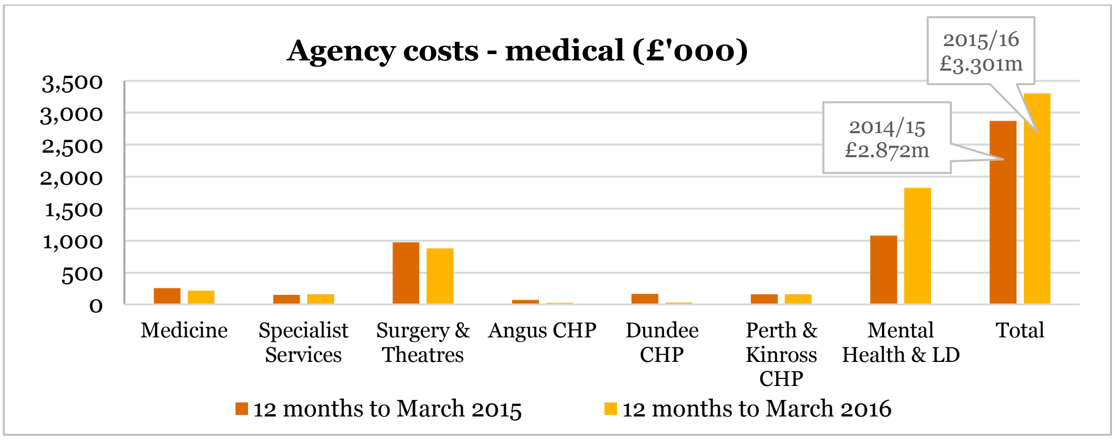
## *Workforce Management*

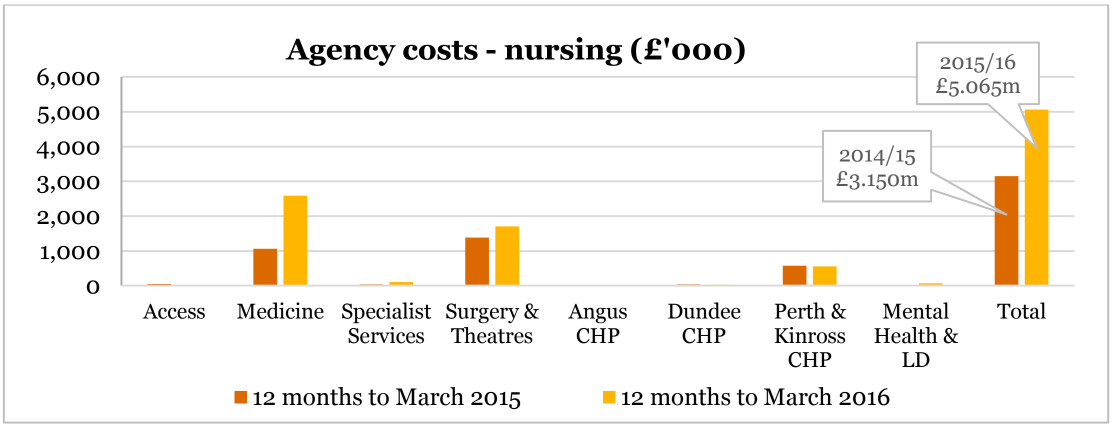
NHS Tayside recognises that in order for longer term sustainability to be achieved, savings on workforce spend must be made. Through benchmark analysis the Board has identified that it has consistently higher staffing numbers and costs in comparison to other Scottish Health Boards. To address this, revised workforce plans are being developed in the context of its Transformation Programme and Service Redesign.

Supplementary costs (including excess hours, agency, bank and overtime) have increased by 18% from £17.372m in 2014/15 to £20.535m in 2015/16. The graph shown below illustrates that of the supplementary costs Agency and Bank costs have risen most significantly whilst the Board has achieved a reduction in Excess Hours costs.




The Board's spend on agency staff (combined nursing and medical) has increased by 39% from £6.022m in 2014/15 to £8.366m in 2015/16. The graphs provided below illustrate that for medical agency expenditure the key cost driver was increased use of agency staff within Mental Health services and for nursing the key cost driver was increased use of agency staff in Medicine service.




We recognise that the use of supplementary staff provides flexibility to cover for vacancies and staff absence. However, continued reliance on such workforce will have an impact on the Board's plans to achieve the savings required for longer term sustainability. The reliance on agency workers, and subsequent impact on the ability to deliver a balanced budget, and not a challenge unique to NHS Tayside. However, to address this, the Board's Workforce Workstream has implemented a number of measures during 2015/16 to optimise the use of available staff resource through primarily focusing on recruitment and better rostering.

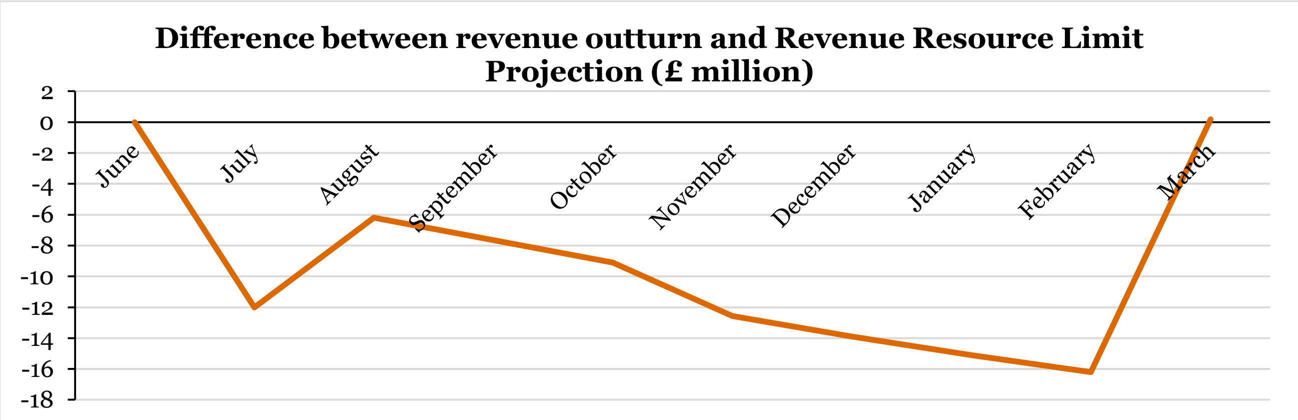
# Financial planning and budgetary control

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

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

It was noted through our understanding of the process relating to Business Performance Reviews that the Board has in place a system by which they can monitor budgets and spends against the budgets throughout the directorates within the Board. This close monitoring has led to a mechanism being in place through which the Board can assess the areas in an overspend position, or those who are managing their budgets more effectively.

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




The above graph illustrates that the Board has consistently struggled to achieve a breakeven position during 2015/16. It is evidenced from the graph that the Board started projecting an overspend position early on during 2015/16 (in July) thus demonstrating a realistic view of the likely outturn. The Board's ability to achieve a breakeven position in March reflects the receipt of £5.0m of brokerage and the benefit realised from the change to funding of historical Injury Benefits provisions.

As discussed above in relation to the Financial Framework 2016/17-2020/21, the Board has adopted a more realistic approach to budgeting. This is particularly evidenced by the fact that the Board is projecting a deficit of £11.65m for 2016/17 and is not anticipating that the outstanding brokerage of £20m could be paid in 2016/17. Further to this, as evidenced by the graph shown above, throughout the 2015/16 period the Board has prepared for a significant deficit which has enabled early discussions with the SGHSCD. This is in contrast to prior year when severity of the deficit only started to be projected in December.

We recognise the significant scale of the challenge of returning the Board to a position of financial sustainability. Therefore a long-term outlook must be adopted. The initiatives and plans put in place by the Board, particularly in the form of the Transformation Programme, will not deliver immediate changes.

# Section 4. Governance and internal control

## Governance structure

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

The Community Health Partnership (CHP) Committee ceased during the year and the three IJBs (Angus, Dundee and Perth and Kinross), became operational as of 1 April 2016.

Within the Board's Code of Corporate Governance, each committee has a prescribed purpose, remit, composition and reporting timetable. We have reviewed the operation of governance arrangements in 2015/16 and noted no variances from that which is prescribed in the Code.

We consider that the governance arrangements in place are appropriate.

## System of internal control

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

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

We identified one minor control weakness during our audit work.

| Deficiency | Recommendation |
|---|---|
| We noted 10 instances in a sample of 50 payroll leavers and starters where the person authorising the joiner/leaver form was not included within the list of authorised signatories.<br><br>Upon investigation it was confirmed that for each of the 10 instances the form had been signed by a person of suitable seniority but the authorised signatory list had not been updated to include them. | The authorised signatory list should be regularly reviewed and updated. |

***Action 5***

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist.

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

# Risk management

The Code of Corporate Governance (CoCG) was updated during 2015/16. Per the Governance Framework, the Audit Committee continues to have responsibility for oversight at the board level. The main changes to the CoCG included dissolution of the 3 Community Health Partnership (CHP) Committees and changing the Improvement & Quality Committee to a Clinical and Care Governance Committee.

Reporting to the audit committee is a Strategic Management Group and Operational Risk/Health and Safety Management Group.

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

# Performance management

NHS Scotland has set a series of national targets, known as the Local Delivery Plan (LDP) Standards which contribute towards delivery of the Scottish Government's Purpose and National Outcomes and NHS Scotland's Quality Ambitions. During 2015/16 the LDP Standards have replaced the previous system of HEAT targets. However, vast majority of LDP Standards are former HEAT targets

LDP Standards are priorities that are set and agreed between the Scottish Government and NHS Boards to provide assurance on NHS Scotland performance. Performance against key performance indicators, as reported by the Board as at May 2016, is summarised on the following page.

<table>
<tr><th>Standard</th><th>Target</th><th>Achieved</th><th>Comment</th><th>Target met?</th></tr>
<tr><td>12 week Treatment Time Guarantee (TTG) for inpatient and day cases.</td><td>100%</td><td>80.5%</td><td>At the end of March 2016, 795 patients had been waiting more than 12 weeks (including unavailable patients).</td><td>No</td></tr>
<tr><td>95% of patients will wait no more than 12 weeks from referral (all sources) to a first outpatient appointment.</td><td>95%</td><td>88.1%</td><td>At the end of March 2016, 2,201 patients were waiting over 12 weeks (including 41 of which were unavailable).</td><td>No</td></tr>
<tr><td>95% of patients begin cancer treatment within 31 days of decision being taken to treat.</td><td>95%</td><td>88.6%</td><td rowspan="2">Achievement of the 31 day standard was seen in Q1 of 2015/16. Subsequent performance in Q2-Q3 was predominantly below the 95% level with achievement only been seen in the months of November and December. Performance in 2015/16 concluded with the standard consistently not being met throughout Q4.<br><br>Performance against the 62 day standard has predominantly remained below the 95% level throughout 2015/16 with the exception of 3 months – April, May and December 2015.</td><td>No</td></tr>
<tr><td>95% of patients begin cancer treatment within 62 days of urgent referral with a suspicion of cancer.</td><td>95%</td><td>93.3%</td><td>No</td></tr>
</table>

| Standard | Target | Achieved | Comment | Target met? |
|---|---|---|---|---|
| 90% of patients referred for Child & Adolescent Mental Health Services (CAMHS) are to start treatment within 18 weeks of referral. | 90% | 99% | This standard has consistently been met since December 2015. | Yes<br><br>(final position not yet reported) |
| 90% of patients referred for Psychological Therapies are to start treatment within 18 weeks of referral. | 90% | 87% | The standard was consistently achieved in Q1-Q3 of 2015/16, however in the final quarter performance remained below the 90% level. This was due to vacant key posts arising within some sub-specialisms. The process to recruit to these posts is underway. | No |
| 95% of patients attending Emergency Departments to wait less than 4 hours from arrival to admission, discharge or transfer for A & E treatment. | 95% | 99% | This standard has consistently been achieved throughout 2015/16. | Yes |
| 90% of clients will wait no longer than 3 weeks from referral received to appropriate drug or alcohol treatment. | 90% | 96.3% | This standard has consistently been achieved throughout 2015/16. | Yes |
| At least 80% of pregnant women in each SIMD quintile will have booked for antenatal care by the 12th week of gestation. | 80% | 93% | This standard has successfully been achieved throughout 2015/16, with performance consistently remaining above 90%. | Yes |
| 90% of eligible patients to be screened for IVF treatment within 12 months of the decision to treat. | 90% | 100% | A 100% success rate of screening eligible patients at an IVF centre within 12 months of decision to treat has been achieved. | Yes |
| Obtain a maximum rate of 0.32 cases of *Clostridium difficile* infections in patients aged 15 and over per 1,000 total occupied bed days. | 0.32 | 0.36 | The three antibiotic prescribing targets that support this standard were achieved. The standard itself has not been achieved throughout 2015/16. | No |
| Obtain a maximum rate of 0.24 cases of *staphylococcus aureus* bacteriamia (including MRSA) per 1,000 acute occupied bed days. | 0.24 | 0.35 | This standard has not been achieved throughout 2015/16. | No |

| Standard | Target | Achieved | Comment | Target met? |
|---|---|---|---|---|
| Sustain and embed successful smoking quits, at 12 weeks post quit, in the 40% most-deprived datazones in the NHS Board area. | 350 (Dec) | 319 (Dec) | Improvement was particularly seen in Q2 and Q3 to deliver 3-month quits. | No<br><br>(final position not yet reported) |
| Increase the proportion of people diagnosed and treated in the first stage of breast, colorectal and lung cancer to 29% by 2014/15 (refers to two calendar years combined from January 2014 to December 2015) from the baseline performance in 2010/11. | 29% | 23.9% (interim)<br>2014/15 | The standard value of 29% has not been achieved. | No<br><br>(final position not yet reported) |
| People newly diagnosed with dementia will have a minimum of one year's post-diagnostic support. | - | 84% | Overall compliance with post diagnostic monitoring in Tayside is 84% at year end position. | No |

The performance information above has been reported by the Board as at May 2016 and has not been subject to audit.

## Internal Audit

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

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

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

## Health and social care integration

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

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

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

The Integration Schemes for each of the three Tayside health and social care partnerships were approved in October 2015 and the IJBs became fully operational on 1st April 2016 as required by the legislation.

## Compensation and Confidentiality Agreements

In the year, the Board committed to pay 3 exit packages with a total value of £14,592 (2014/15: £175,840). All cases were in relation to the settlement of employment tribunals. We reviewed the approval process for each settlement and confirmed that all had been appropriately approved by the Board's remuneration committee in accordance with its local procedures.

Scottish Government issued revised procedures for settlements agreements, which was effective from 1 April 2014. The procedures require that a formal business case be submitted to the Scottish Government for review and approval before any agreement can be entered into. We reviewed the process followed for each settlement paid in the year.

# Section 5. Fraud

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

## Auditors' responsibility

Our objectives are:

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

## Management's responsibility

Management's responsibilities in relation to fraud are:

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

## National Fraud Initiative (NFI)

The Board participates in the National Fraud Initiative (NFI).In accordance with our responsibilities as your appointed auditor, we have completed the NFI questionnaire which was submitted in February 2016 and noted the following key outcomes:

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

## Prevention and detection of fraud and corruption

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

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

NHS Tayside have in place a whistleblowing policy, last updated and approved by the Staff Governance Committee in April 2015. Any potential frauds which are identified are reported and monitored using the counter fraud service. The Fraud Liaison Officer liaises directly with internal audit should there be any findings from their work which may indicate a fraud has occurred.

# *Section 6. Independence*

## Independence and objectivity

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

## Independence conclusion

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

# Appendix 1: Action plan

| Finding | Management response |
|---|---|
| **1) Financial Sustainability**<br><br>The Board should consider the implications of not setting a balanced budget for 2016/17 and the ramifications for the Health Board and future service provision if a balanced budget cannot be achieved. The Board should also seek formal clarification from the Scottish Government of the implications of the Board being unable to manage the current gap in the budget resulting in a deficit at year end. | The Local Delivery Plan submitted to SGHSCD in May 2016 reflects the current assessed position. Work continues to identify further local initiatives and also to reflect on benefits that may be obtained from the National Initiatives that are being pursued. The Board is in continuous and regular dialogue with senior officers at SGHSCD on the financial position of the Board. The ability to manage the in year gap is a core feature of these discussions<br><br>Responsible Officer: Chief Executive/Director of Finance<br>Timescale: September 2016 and Ongoing |
| **2) EDL payments**<br><br>In financial year 2016/17 Management should perform detailed calculations at an individual employee level for EDL arrears arising in 2015/16 and 2016/17. Management should prioritise testing and implementation of the enhanced SSTS functionality across all wards. | The Board will perform detailed calculations at an individual employee level for EDL arrears arising in 2015/16 and 2016/17. The financial implications will be reported to the Finance & Resources Committee.<br>Progress with the roll out of the enhanced SSTS functionality will be reported to the Finance & Resources Committee.<br><br>Responsible Officer: Director of Finance/Director of HR<br>Timescale: March 2017 |
| **3) Assets classified as Held For Sale**<br><br>Whilst there is no significant impact on the financial outturn of the Board, Management should regularly undertake a review of the assets held for sale listing in order to ascertain that all conditions of IFRS 5 are met and the assets disclosed as held for sale are appropriate.<br><br>Property receipts do form part of the future income of the Board and therefore it is important that the anticipated value and timing of the sales are closely monitored to ensure they remain realistic. | Given the significant programme of disposals the Board will regularly undertake a review of the assets held for sale to ascertain that all conditions of IFRS 5 are met and the assets are disclosed appropriately.<br><br>The Property Workstream continuously scrutinise the programme of disposals for both timing and anticipated value. This is reported through the Transformation Programme Board.<br><br>Responsible Officer: Director of Finance<br>Timescale: March 2017 |

| Finding | Management response |
|---|---|
| **4) Accounting for CNORIS transactions**<br><br>The Board should review its CNORIS accounting practices to ensure that reversal of unutilised provisions is recognised against annually managed expenditure. | An operating procedure will be developed to ensure the correct application of the reversal of unutilised provisions is recognised against annually managed expenditure.<br><br>Responsible Officer: Director of Finance<br>Timescale: August 2016 |
| **5) Payroll starters and leavers**<br><br>The authorised signatory list should be regularly reviewed and updated. | Arrangements will be put in place to review the authorised signatory list.<br><br>Responsible Officer: Director of Finance<br>Timescale: October 2016 |

# Appendix 2: Follow up on prior year actions

| Finding | 2015/16 Updated Position |
| --- | --- |
| **1. EDL Payments**<br>In financial year 2015/16 Management should ensure that EDL payments are not made until each claim has been agreed to both the SSTS system and underlying supporting documentation, where appropriate, to ensure that payments made are accurate. Management should continue to implement the audit recommendations made by Internal Audit in relation to the project management arrangements. | Management has carried out a review of the EDL project and has enhanced the arrears calculation method responding to recommendations made by Internal Audit.<br><br>As ongoing issues with compliance are noted, we consider that further action is required in relation to EDL. Refer to ***Action 1*** above.<br><br>**In progress.** |
| **2. Review of budget setting process**<br>The Board should ensure a project is undertaken to review the effectiveness of their annual budgeting process considering the following factors:<br>• Departments with continued overspend positions and the need for contingencies;<br>• Incorporation of changes in demographics and demand;<br>• Consideration of significant planned service changes and projects;<br>• Achieving required savings;<br>• Engagement with service areas to ensure budgets are realistic; and<br>• The need for additional scrutiny and challenge over the adequacy of the budget.<br><br>The Board should continue to conduct exercises to understand the underlying reasons for its key overspends, taking action as appropriate to address these. | Throughout 2015/16 management has taken action towards ensuring long term financial sustainability through analysing areas of overspends and setting up new workstreams to deliver change.<br><br>Throughout 2015/16 management has more realistically projected a deficit position which enabled early discussions regarding brokerage and other funding arrangements with the SGHSCD. More realistic budget setting is also evidenced by the projection of a deficit for 2016/17.<br><br>We recognise that the return to financial sustainability requires the Board's continued commitment and can only be achieved in the medium- to long-term.<br><br>**In progress.** |

| Finding | 2015/16 Updated Position |
|---|---|
| **3. Segregation of duties in PECOS** | |
| In prior year we noted one instance of a sample of 37 in which the same individual raised and authorised an order within the PECOS system. Upon investigation it was confirmed that this was due to the fact that the individual was at the top of their authorisation hierarchy within the system and this had been picked up by management's own monthly KPI reviews. Management have further investigated the matter and confirmed that this issue is restricted to a single department. A request has been submitted to IT to reconfigure the PECOS approval route to ensure that secondary authorisation is always required. A similar exception was noted as a part of the 2013/14 external audit. | Implementation of updated PECOS approval routes is currently in progress. As an interim solution management has put in place exception reporting of instances in which self-approval has taken place.<br><br>**In progress.** |
| **4. Audit trail of approval of PECOS accrual** | |
| On a monthly basis a Purchase Order Processing (POP) accrual is automatically generated by the finance system. This is reviewed and any necessary adjustments are then processed into the system. The adjustment is prepared by the Finance Team and approved by the Financial Accountant.<br>Our review, however, noted that the approval for the processing of the adjustment is not formally documented and is often made verbally over the phone. As a consequence we were unable to verify that approval had taken place for the months sampled. | We have confirmed through sample testing that management has implemented a formal procedure whereby an e-mail is retained to evidence approval of the accrual.<br><br>**Complete.** |

*In the event that, pursuant to a request which NHS Tayside has received under the Freedom of Information Scotland Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. NHS Tayside agrees to pay due regard to any representations which PwC may make in connection with such disclosure and NHS Tayside shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, NHS Tayside discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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