

# NHS Grampian

Interim Audit Report 2016/17



 AUDIT SCOTLAND

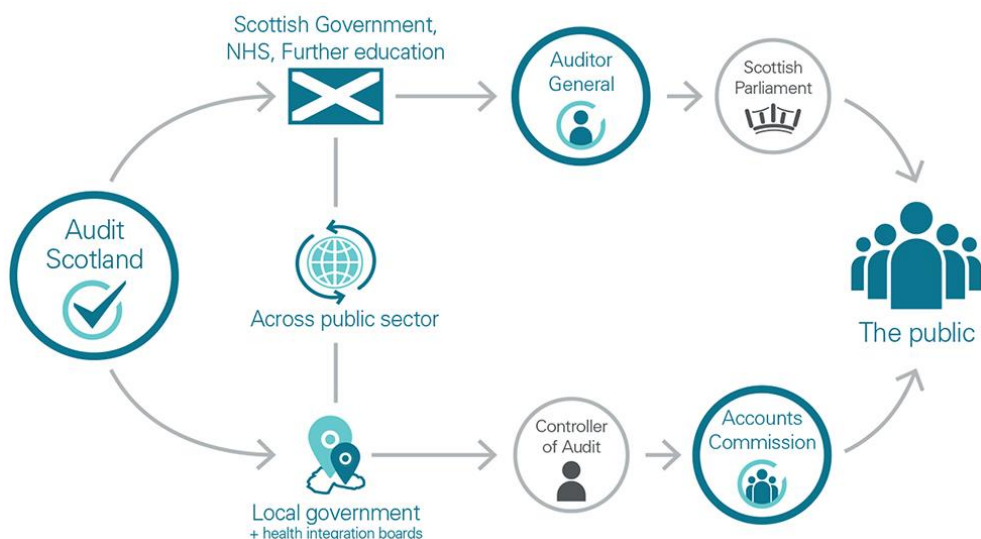
Prepared for NHS Grampian

June 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during our interim audit work at NHS Grampian. This work includes an understanding of the board and the control environment in which it operates.
2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
  - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
  - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
  - complies with established policies, procedures, laws and regulations.

## Conclusion

3. No significant weaknesses were identified from our interim audit work and appropriate governance arrangements are in place. However, we have identified areas for improvement as summarised in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

## Work summary

4. In getting to know the business of NHS Grampian and the environment in which it operates, our work included reviewing key governance documents such as standing orders, standing financial instructions and policies. We also reviewed the arrangements in place for identifying and complying with legislation and regulations that are relevant to the board.
5. As part of our opening engagement with the board on its financial statements, a review of the accounting policies was carried out and a small number of suggestions were made in relation to: the use of indexation in calculating the value of assets under construction, intangible assets and the need to update pension cost polices to reflect the new Career average revalued earnings (CARE) scheme. These matters were subsequently considered by the Finance team in preparing updated policies for inclusion in the 2016/17 accounts.
6. In line with our Annual Audit Plan, we are taking assurance from internal audit with regard to their work on internal controls within key financial systems. In advance of their work, we shared with internal audit our expectations in respect of key financial controls. We have subsequently reviewed internal audit's supporting working papers and found that they support the findings in their report.
7. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.
8. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the

weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to NHS Grampian.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response	Responsible officer and target date
<b>Financial statements risks - Audit findings</b>		
<p><b>1.Related party disclosures</b></p> <p>The related party disclosure in the 2015/16 financial statements only referred to the board's share in the costs of the IJBs. IAS 24 identifies certain parties that should be treated as related parties under the standard and requires disclosure of associated relevant material transactions e.g. Directors, Associate, Joint Venture, Member of key management, close member of family of Directors, etc.</p> <p>From our initial review, we flagged the area for further review, to consider if there were any material omissions from the disclosure.</p> <p><b>Risk:</b> There is a risk the related party disclosures are incomplete.</p> <p><b>Recommendation:</b> The working papers provided to support the disclosure should provide evidence of the review undertaken.</p>	<p>This matter was resolved as part of the audit of the Annual Report and Accounts.</p>	<p>No further action.</p>
<p><b>2.Revaluation Reserve</b></p> <p>A reconciliation is not performed between the balance of the Revaluation Reserve in the asset register with the balance in the ledger.</p> <p>In examining the opening entries, we identified a difference on the revaluation reserve of £7.3m between the balance in the asset register compared with the balance in the financial ledger. This may be due to the approach taken by NHS Grampian when accounting for the disposal of assets which involved components.</p> <p><b>Risk:</b> There is a risk that the Revaluation Reserve reported in the financial statements is not fairly stated.</p>	<p>This matter was resolved as part of the audit of the Annual Report and Accounts and is reflected in the Annual Audit Report (Exhibit 3).</p>	<p>Refer AAR</p>

Issue identified	Management response	Responsible officer and target date
<p><b>3.Impairment</b></p> <p>The Capital Accounting Manual, par 6.3.4 states that:</p> <p>"Where an asset continues to provide its existing service potential in advance of future planned sale or other event that will reduce its current service potential, this impairment should be recognised to the extent of the current service potential that is expected to be foregone. In normal practice this will relate to the excess of anticipated Depreciated Replacement Cost over Fair Value at the point in time the properties are available for disposal or non-specialised used."</p> <p>The board's current practice is to recognise the impairment at the point when the building is decanted. Our understanding of Scottish Government guidance is that the approval of the Final Business Case signals the stage where the board should impair the asset to its future recoverable amount.</p> <p><b>Risk :</b> There is risk that current accounting practice is not in line with guidance.</p>	<p>This matter was resolved as part of the audit of the Annual Report and Accounts and is reflected in the Annual Audit Report (Exhibit3).</p>	<p>Refer AAR</p>

## Internal controls - Audit findings

### 4.Standing Orders

Refreshed board Standing Orders were issued in June 2016, over 3 years since the last review. Standing Orders require a review every two years. We note however that they were further refreshed in March 2017. In addition, we were unable to locate the most recent version on the board's website.

We also noted that constitutions for board committees were not available on the website and that the Patient Focus and Public Involvement Committee had changed its name. .

**Risk:** There is a risk that users don't have access to current information on the board's website.

**Recommendation:** Key documentation should be kept updated and in the spirit of transparency, made available through the board's website.

The link to the most recent version of the standing orders on the public website will be updated.

Assistant Board Secretary  
30 June 2017

The Board Secretary will consider publication of the constitution of each Board Sub Committee on the Board public website.

Board Secretary  
September 2017

Issue identified	Management response	Responsible officer and target date
<p><b>5.Review of Policies</b></p> <p>Regular reporting to the Audit Committee previously highlighted a significant number of policies which have not been reviewed in line with review dates. We noted five policies listed as "Red" meaning that review is overdue and a review group not yet constituted. Forty nine polices were classed as "Amber", review is underway. Of these, 40 were due for review before or during 2015 and 31 of those had been due for review prior to 2010. Some examples of policies which are long overdue for review included grievance policy (last updated in 2005), records management and data protection policies (both previously updated in 2014). We also noted that the whistle blowing policy had not been updated since 2006 but that its update has now been completed.</p> <p><b>Risk:</b> There is a risk that existing policies do not reflect recent legislation or good practice and may therefore not be fit for purpose.</p> <p><b>Recommendation:</b> the timetable for review of policies is refreshed and prioritised to ensure that higher risk areas are addressed within reasonable timescales.</p>	<p>The Director of Workforce has reviewed existing arrangements and a progress report will be submitted for consideration at the June 2017 Audit Committee.</p>	<p>Director of Workforce</p> <p>30 June 2017</p>
<p><b>6. EU legislation</b></p> <p>The board does not currently have adequate arrangements in place to ensure compliance with EU State Aid rules. Provision in the SFI's is currently limited to the requirement that contracts for the provision of "economic activity" above £50,000 will be subject to competitive tender. EU State Aid rules cover a wider scope which include but not limited to grants, loans and guarantees and sale of assets. The rules also set out four tests to assess the presence of aid.</p> <p><b>Risk:</b> There is a risk that the board is unaware or unclear of EU State Aid rules which may result in non-compliance with the said rules.</p> <p><b>Recommendation:</b> Arrangements are put in place to demonstrate, where appropriate, consideration of EU State Aid Rules.</p>	<p>The most recent Standing Financial Instructions approved by the Board in April 2017 were updated to include the requirement to comply with European State Aid regulations.</p>	<p>Assistant Director of Finance</p> <p>April 2017</p>

Issue identified	Management response	Responsible officer and target date
<p><b>7. Pharmacy stock</b></p> <p>No audit trail was maintained to evidence changes made to the pharmacy stock system as a result of the annual stock take. It was also noted that the stock take was undertaken by two members of pharmacy staff.</p> <p><b>Risk:</b> Significant value may be written off the stock system without appropriate authorisation. This could create uncertainty about the accuracy of the system and the reliance which can be placed upon it.</p> <p><b>Recommendation:</b> The stock sheets used at the count are retained together with an audit trail to demonstrate the changes made to the stock system as a result of the count together with appropriate explanations and authorisation. In addition, we would suggest that the count team includes a member of staff who is independent of the pharmacy. This will provide an independent check that controls are being operated correctly.</p>	<p>Procedures will be updated to ensure evidence of any changes to stock balances arising from periodic stock counts is retained with the associated stock sheets.</p> <p>Consideration will be given to involving an independent member of staff in the team undertaking the stock count.</p>	<p>Principle Pharmacy Technician</p> <p>31 March 2018</p>

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## Wider dimension issues and risks - audit findings

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### 8. Risk Register

While the Strategic Risk Register is taken to Committee regularly, the risks contained therein were last formally reviewed in 2015.

**Risk:** There is a risk that members are not aware of the latest status of risks identified and therefore are unable to decide on the appropriate actions to take in a timely manner.

**Recommendation:** At least on an annual basis, risks should be formally reviewed to ensure that the board's key risks are being addressed and monitored appropriately.

The Performance Governance Committee will formally schedule and record an annual review of the corporate risk register.

Director of Finance/  
Director of Workforce

December 2017

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Issue identified	Management response	Responsible officer and target date
<p><b>9.Register of interests</b></p> <p>There was insufficient evidence to demonstrate that the register of board members interests had been updated in the year. There is also scope to declare IJB membership within the register of board members' interests.</p> <p>We also noted that registers required under the provisions of NHS Circular HDL (2003) 62 are not in place. These cover:-</p> <ul style="list-style-type: none"> <li>• Joint working arrangements between employees and independent Family Health Service Contractors and the pharmaceutical industry; and</li> <li>• Financial interests held by employees and independent Family Health Service contractors with any organisations which may impact upon any funding arrangements made between the Board and any non-NHS organisations.</li> </ul> <p><b>Risk:</b> There is a risk that the board is not fully open and transparent and is not complying with standing orders/guidance.</p> <p><b>Recommendation:</b> Processes are put in place to ensure that relevant registers are in place and updated. Where there has been no change, there should be evidence to demonstrate that board members have confirmed their declarations on an annual basis.</p>	<p>The on line register of Board members interests will be updated to include the date of last review.</p> <p>The Standards Commission for Scotland will be consulted to clarify the requirement for disclosure of IJB membership.</p> <p>The most recent Standing Financial Instructions approved by the Board in April 2017 were updated to include a definition of conflict of interest and to include a more detailed explanation on how to declare an interest in the Corporate Register of Interests, Hospitality and Gifts and the circumstances when this is necessary.</p> <p>In addition the Audit Committee approved, at their March 2017 meeting a series of actions aimed at improving the Board's processes around declaration of interests, gifts and hospitality.</p> <p>These actions included introduction of a standard declaration form to be used for all entries to the register, establishment of an overview group to review content, development of the electronic register to support management reporting and audit trail functionality and the development of good practice guidance on conflict of interest.</p>	<p>Assistant Board Secretary 30 September 2017</p> <p>Assistant Director of Finance April 2017</p> <p>Assistant Director of Finance/Executive Services Manager/Assistant Board secretary 30 September 2017</p>
<p><b>10.IT Strategy</b></p> <p>The board does not currently have its own formal e-Health strategy but instead uses the national e-Health strategy to inform its priorities. The ICT strategy is also a few years old and requires updating.</p> <p><b>Risk:</b> There is a risk that e-Health activities are not aligned to corporate priorities and therefore the board could be missing out on opportunities to take advantage of technological advancements to transform services and achieve financial sustainability and value for money.</p> <p><b>Recommendation:</b> IT strategies should be updated and aligned with local priorities.</p>	<p>The board is currently developing its own Corporate Digital Health Strategy in consultation with all clinical and service areas. This will be underpinned by a refreshed ICT strategy and will take into account the Board's new Clinical Strategy and the health and social care partnerships plans. The process will also be informed by the national digital health and care strategy which is currently under development and expected to be published in December 2017.</p>	<p>General Manager for eHealth 31 March 2018</p>

**9.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# NHS Grampian

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