

# NHS Tayside

2016/17 Annual Audit Report



 AUDIT SCOTLAND

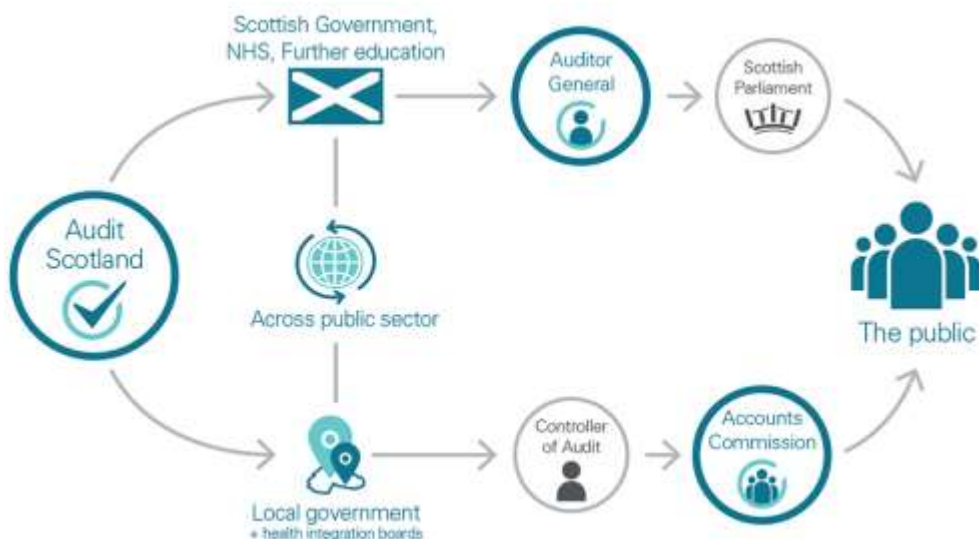
Prepared for the board of NHS Tayside and the Auditor General for Scotland

29 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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# Contents

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Key messages	4
Introduction	6
Part 1 Audit of 2016/17 annual report and accounts	8
Part 2 Financial management	13
Part 3 Financial sustainability	18
Part 4 Governance and transparency	26
Part 5 Value for money	32
Appendix 1 Action plan 2016/17	37
Appendix 2 Significant audit risks identified during planning	41
Appendix 3 Summary of national performance reports 2016/17	46

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# Key messages

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## 2016/17 annual report and accounts

- 1 Our audit opinions are all unqualified. These cover the financial statements, regularity of transactions, remuneration and staff report, performance report and governance statement.

## Financial management

- 2 NHS Tayside met all of its financial targets for 2016/17.
- 3 The board achieved an underspend of £0.1 million against its revenue resource limit but only after receiving additional brokerage<sup>1</sup> of £13.2 million from the Scottish Government.
- 4 NHS Tayside planned for an £11.6 million deficit in its 2016/17 Local Delivery Plan (LDP) but the deficit rose to £13.1 million before the additional funding was provided.
- 5 The board delivered £45.5 million of efficiency savings this year. Whilst this is a very significant sum, and nearly double the savings achieved in 2015/16, it was still £1.3 million below target.

## Financial sustainability

- 6 The board continues to face an extremely challenging position, and recognises that its cost base remains too high. For 2017/18 alone the financial plan is projecting a funding gap of £49.8 million. Some of the efficiency savings required in 2017/18 have yet to be identified or are high risk.
- 7 The Board's five year transformation programme is critical to delivering efficiency savings and to achieve financial balance over the medium term. The programme has delivered substantial cost reductions to March 2017 through efficiency and productivity reviews but further savings will be required on a recurring basis which can only come from service redesign and transformation.
- 8 In October 2016 the Auditor General for Scotland issued a report to the Scottish Parliament's Public Audit Committee, drawing attention to the continuing financial challenges NHS Tayside faces. An updated report to the Public Audit and Post-legislative Scrutiny Committee in respect of the findings in this report is likely.
- 9 A Scottish Government appointed independent Assurance and Advisory Group (AAG) will report on the board's financial planning and deliverability of its 5 year transformation programme.

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<sup>1</sup> Brokerage is an advance of funding from the Scottish Government which has to be repaid.

## Governance and transparency

- 10** NHS Tayside has appropriate governance arrangements in place that support scrutiny of decisions made by the board.
- 11** NHS Tayside is open and transparent in the way it conducts its business, but public performance reporting could be improved.

## Value for money

- 12** The board's performance against its non-financial LDP Standards as reported in the 2016/17 annual report and accounts is variable, with eight (50%) of the standards not being met as at March 2017.
- 13** The board has an effective performance management framework in place. Going forward, we will monitor the effectiveness of the arrangements in supporting the board's transformation programme and driving change.

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# Introduction

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1. This report summarises the findings from our 2016/17 audit of Tayside Health Board, commonly known as NHS Tayside.

2. The scope of our audit was set out in our Annual Audit Plan presented to the January 2017 meeting of the Audit Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice \(2016\)](#) as illustrated in Exhibit 1.

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## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the board's main financial systems and governance arrangements
- an audit of the board's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. NHS Tayside is responsible for preparing the annual report and accounts. It must also put arrangements in place for governance, propriety and regularity that enable them to successfully deliver their objectives.

- 5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice \(2016\)](#), and guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we give independent opinions on the annual report and accounts. We also review and report on the arrangements within NHS Tayside to manage its performance, regularity and use of resources such as money, staff and assets. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1](#). It sets out specific issues and risks, recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 annual report and accounts



### Main judgements

#### Unqualified audit opinions on the annual report and accounts.

**A number of significant errors were identified during the audit. Management has adjusted all but one of these errors in the accounts. The unadjusted error is not considered material and does not adversely impact on the achievement of the board's financial target.**

**The late availability of the Performance Report and Accountability Report made the completion of the audit by the agreed date challenging.**

**The working papers provided in support of the annual report and accounts were of a good standard.**

### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were approved by the Board on 29 June 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- unqualified opinions on the remuneration and staff report, performance report and governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The board's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Submission of annual report and accounts for audit

**15.** We received an unaudited accounts template on 8 May 2017, in line with our agreed audit timetable and this allowed us to start the audit of the financial statements for 2016/17. The template was incomplete, mainly due to the unavailability of Integration Joint Board (IJB) financial results for consolidation and remuneration and staff costs disclosures. The draft Performance Report and draft Accountability Report, planned for 17 May, were not fully available until 25 May and 24 May respectively. IJB results were subsequently available for consolidation into the Group Accounts on 1 June 2017. A complete unaudited annual report and accounts was not provided until 1 June 2017.

**16.** The working papers provided in support of the unaudited financial statements were of a good standard and finance staff provided good support to the audit team throughout the audit. The final accounts audit process ran smoothly although the timing of the availability of the Performance Report and Accountability Report made



the completion of the audit challenging. We would encourage earlier submission of this information in future years.

**17.** We also noted that the annual report and accounts reflect good practice as set out in the Audit Scotland publication *'Improving the Quality of the NHS Annual Report and Accounts' (December 2014)*.

**18.** In 2016/17, for the first time, the board's group accounts included the financial results of the three IJBs within its boundary. The group accounts include the board's share of the IJBs' surplus for 2016/17, although these have no impact on the board's reported outturn. The IJBs' annual accounts have yet to be audited, however, we are satisfied that the board had adequate arrangements in place to agree year end balances between itself and its IJB partners (although these were agreed later than the 30 April statutory deadline). Our audit testing confirmed that the board properly identifies transactions that relate to work commissioned by its IJBs.

## Risks of material misstatement

**19.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

## Materiality

**20.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**21.** On receipt of the annual report and accounts we reviewed our materiality calculations. The materiality levels set for NHS Tayside and its group are summarised in Exhibit 2.

## Exhibit 2

### Materiality levels

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£10.5 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 55% of overall materiality.	£5.8 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the reporting threshold amount. This has been calculated at 1% of overall materiality (subject to a maximum of £0.1 million).	£0.1 million

Source: Audit Scotland

## How we evaluate misstatements

**22.** There were three significant adjustments to the unaudited financial statements arising from our audit and details are summarised at items 1-3 in Exhibit 3. another adjustment was not made by management (item 4 in Exhibit 3) for an item which was identified late in the audit process.

**23.** One error, relating to the revaluation reserve, noted in exhibit 3 (item 2), exceeded our performance materiality level. This is considered to be an isolated error and required no further audit procedures to be undertaken. The board has adjusted for this error in the accounts as noted above.

## Significant findings

**24.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in Exhibit 3.

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## Exhibit 3

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Summary of revenue resource outturn</b></p> <p>Audit testing identified an error of £1.2 million in the figure included in the unaudited accounts for Annually Managed Expenditure (AME) – Creation of Provisions, shown as £20.5 million. The figure should be £19.3 million. This error impacted on the non core and core revenue resource outturn figures shown in the summary of revenue resource outturn.</p>	<p>Adjusted: The AME – Creation of Provisions has been corrected to £19.3 million. The revenue resource outturn summaries have also been updated.</p> <p>Management has tasked Internal Audit with identifying how the error in the AME provision was not identified internally. Internal Audit will report their findings to management in due course.</p> <p>We will consider the findings of Internal Audit in our 2017/18 audit work.</p>
<p><b>2. Balance sheet: revaluation reserve</b></p> <p>The NHS Scotland Unified Board Accounts Manual requires an amount equal to the excess of actual depreciation over depreciation based on the historic cost to be transferred from the revaluation reserve to the general fund. The board has not accounted for this transfer in 2016/17 or in previous years. The board has estimated the value of the transfer for this year to be £7.2 million.</p>	<p>Adjusted: The accounts have been changed to transfer this amount from the revaluation reserve to the general fund in 2016/17. The board has been unable to identify the impact of this on prior years and so no prior year adjustment has been made. We have accepted this approach because it has no impact on the total taxpayer's equity in the balance sheet.</p> <p><a href="#">Action Plan (Appendix 1, point 1)</a>, - the board should introduce a process to ensure the transfer is calculated and applied from 2017/18.</p>
<p><b>3. Research and development income</b></p> <p>Audit testing identified £0.7 million of research and development income that was treated as deferred income in the accounts. Our view is that to comply with accounting rules and the board's own accounting policy, this income should not be deferred. The board has not identified any planned specific activity on which it will be spent in the future and should therefore recognise it in the year in which it is received.</p>	<p>Adjusted: The board accepts our view and the income in the accounts has been increased by £0.7 million, to include the income in the 2016/17 accounts. No further action required.</p>

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Issue	Resolution
<p><b>4. Accounting for the Injury cost recovery (ICR) scheme</b></p> <p>Under the ICR scheme, NHS treatment costs can be recovered where personal injury compensation is paid (e.g. after a road traffic accident) primarily from an insurance company or third party compensator. Boards should recognise income and a debtor at the point the form has been received and they have confirmed that treatment has been provided. The Department of Health has provided guidance on the cost recovery scheme for 2016/17. Late in the audit process we identified that not all boards have complied with the guidance and instead of making an appropriate accrual have accounted for recovery on receipt. Audit enquiries have identified that NHS Tayside has not properly recognised the debtor due at 31 March 2017 for expected recoveries under the scheme. The board has estimated the impact of this as an under accrual and understatement of board income of £1.9 million.</p>	<p>Not adjusted: This is considered an unadjusted error in the accounts but because its value is below our materiality value and does not adversely affect achievement of the board's financial targets, management has chosen not to adjust this year's accounts. The board is to review its treatment of its ICR scheme for 2017/18.</p>
<p><b>5. Health and social care integration</b></p> <p>The three IJBs within the Tayside area have been consolidated in the board's accounts for the first time.</p> <p>The IJBs have been consolidated into the group accounts as joint ventures. The board's share of the IJB net assets are shown as investments in joint ventures totalling £3.5 million.</p> <p>£443.2 million has been included in the board's clinical services expenditure which represents the board's payments to the IJBs to provide services on its behalf. This is offset by £443.2 million of income from the IJBs for the commissioning of services by the IJBs.</p> <p>The IJB figures are based on the unaudited accounts for each IJB. We do not anticipate any material changes to the draft figures used in consolidation.</p>	<p>For information.</p>
<p><b>6. Governance statement</b></p> <p>The draft governance statement did not include reference to the assurances received from the IJBs covering their governance arrangements.</p>	<p>The board has agreed to revise the governance statement to refer to the IJB assurances received. The Chief Executive will need to ensure appropriate assurances are received prior to signing the accounts on 29 June 2017.</p>
<p><b>7. Tayside Health Fund (endowment fund)</b></p> <p>The Tayside Health Fund figures included in the group accounts are based on the unaudited accounts. We have received written assurances from the auditor of the endowment fund that no material changes are anticipated to the draft figures used in consolidation.</p>	<p>For information.</p>

Issue	Resolution
<p><b>8. Going concern</b></p> <p>The accounts have been prepared on a going concern basis i.e. the board expects to continue operations for the foreseeable future, at least 12 month from the accounts signing date.</p> <p>Despite NHS Tayside's continuing financial challenges, we have accepted this approach due to the Scottish Government's ongoing funding commitment to the board.</p>	<p>For information.</p>

Source: NHS Tayside annual report and accounts 2016/17

**25. Late changes to the accounts:** A small number of lower value adjustments have been made to figures included in the unaudited accounts to reflect up to date information. The net value of these changes reduces the board's net expenditure by £0.4 million. After the accounts have been amended to reflect these changes, and those detailed in the table above, the saving against the core revenue resource limit has changed from £0.2 million to £0.1 million.

**26. Presentational and disclosure issues:** Our audit also identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

**27. Enhanced Discretionary Leave (EDL) accruals and payments:** In 2015/16 the previous auditors reported that NHS Tayside had identified that for a number of years, it had not fully complied with '*NHS Circular PCS (AFC) 2008/12 – Changes to the way staff are paid during annual leave*'. They recommended that the board perform detailed calculations at an individual employee level for the 2016/17 figures. We sample tested the board's calculations for 2016/17 figures and did not identify any significant errors.

**28.** The previous auditors also recommended that, to enhance the EDL reporting, the board should prioritise testing and implementation of enhanced Scottish Standard Time System (SSTS) functionality across all wards. The Pay As If At Work (PAIAW) module of SSTS was rolled out from 1 April 2017 and we will monitor progress in 2017/18.

**29. NHS Tayside Assurance and Advisory Group:** In April 2017, the Scottish Government established an independent Assurance and Advisory Group (AAG). The group's terms of reference are discussed at paragraph 70. The work of this group has no impact on our audit of the 2016/17 financial statements.

# Part 2

## Financial management



### Main judgements

The board met all of its 2016/17 financial targets. An underspend of £0.1 million against the Revenue Resource Limit (RRL) is reported. However this was only achieved after receipt of £13.2 million brokerage.

The cost base of the board remains too high. The board initially planned for a deficit of £11.6 million for 2016/17 but due to a shortfall in planned savings, this increased to £13.1 million by March 2017. The board delivered £45.5 million of efficiency savings. Whilst this is a very significant sum, and nearly double the savings achieved in 2015/16, it was still £1.3 million below target.

An updated Section 22 report from the Auditor General for Scotland to the Public Audit and Post-legislative Scrutiny Committee is likely to reflect on the board's financial position described in this report.

Board members and senior management scrutinise and monitor the board's finances. To support this, the board is planning to introduce improved business planning and budget reporting for 2018/19.

NHS Tayside had adequate systems of internal financial control in place which, overall, operated effectively during 2016/17.

### Financial performance in 2016/17

**30.** NHS Tayside, as required by statute, has to work within the annual resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD).

**31.** In October 2016, following her consideration of the audited accounts and the auditor's report for NHS Tayside for the year ended 31 March 2016, the Auditor General submitted a report, under section 22(3) of the Public Finance and Accountability (Scotland) Act 2000 to the Public Audit Committee. The purpose of the Auditor General's Financial Sustainability report was to draw Parliament's attention to the scale of the challenge NHS Tayside faces in meeting its financial targets. The report noted that NHS Tayside had needed financial assistance from the Scottish Government for four successive years in order to break even.

**32.** In 2016/17 NHS Tayside has continued to experience significant cost pressures and it required further financial assistance from the Scottish Government. In 2016/17 net expenditure is reported as £892.0 million, this is an increase over that of £852.6 million reported in 2015/16. Although some of the increase is not wholly within the control of the board e.g. CNORIS provisions and National Insurance increases, the board's operating model remains too high. The board recognises this and this is a focus of its transformation programme.

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

**33.** Despite this, as illustrated in Exhibit 4, the board achieved all of its financial targets. The board reported an underspend of £0.1 million (0.01%) against its 2016/17 revenue resource limit of £853.6 million but this was only achieved after receiving substantial brokerage from the Scottish Government.

**34.** The board's Local Delivery Plan for 2016/17 identified a potential deficit of £11.6 million for 2016/17, but due to a shortfall in achieving its savings targets, this deficit increased to £13.1 million by March 2017. The Scottish Government approved a final brokerage figure of £13.2 million in April 2017.

**35.** The boards most significant overspends occurred in :

- workforce costs, overspent by £3.7 million, a reduction compared to the 2015/16 overspend of £10.3 million
- prescribing costs overspent by £6.7 million, an increase compared to the 2015/16 overspend of £4.7 million
- other non pay costs resulting from demand pressures impacting on the level of clinical supplies costs, overspent by £2.6 million, the same as the 2015/16 overspend of £2.6 million.

**36.** None of the £20 million outstanding brokerage received in the previous four years was repaid in 2016/17. The total brokerage received due for repayment is now £33.2 million.

## Exhibit 4

Performance against resource limits in 2016/17

Performance against resource limits set by SGHSCD	Resource Limit £m	Actual £m	Underspend £m
Core revenue resource limit	803.2	803.1	0.1
Non-core revenue resource limit	50.4	50.4	0
Total revenue resource limit	853.6	853.5	0.1
Core capital resource limit	10.4	10.4	0
Non-core capital resource limit	4.3	4.3	0
Total capital resource limit	14.7	14.7	0
Cash requirement	862.4	862.4	0

Source: NHS Tayside annual report and accounts for year ended 31 March 2017

**37.** The Scottish Government made a commitment that all boards would be within one per cent of the National Resource Allocation Committee (NRAC) target allocations by 2016/17. NHS Tayside was reported as being at parity in 2016/17.

## Efficiency savings

**38.** The 2016/17 Local Delivery Plan noted that £58.4 million (8.4% of base RRL) efficiency savings were required for NHS Tayside to break even in 2016/17.

Savings of this magnitude are unprecedented. The board recognised that this would be difficult to achieve and agreed with the Scottish Government that it would plan to deliver £46.8 million of efficiency savings, with £11.6 million of spend to be supported through brokerage.

**39.** In December 2016 the board reported that there was a risk that the planned level of efficiency savings would not be achieved, and reported that there was a potential further exposure of £3 - 4 million above the planned deficit of £11.6 million. In February 2017, the board reported that the further exposure amounted to £1.5 million. By the year end £45.5 million of efficiency savings had been delivered. Whilst this is a very significant sum, and nearly double the savings achieved in 2015/16 (£23.4 million), it was still £1.3 million below target.

**40.** £23.4 million (51%) of the savings were achieved on a recurring basis, and can therefore be realised on an annual basis going forward. £22.1 million (49%) of savings were achieved on a non-recurring basis i.e. they are one-off savings in this year only. The board's reliance on non-recurring savings is discussed further at paragraph 67.

## Capital allocation

**41.** NHS Tayside received a total capital allocation of £14.7 million in 2016/17. This was made up of £10.4 million core allocation and £4.3 million non-core allocation.

**42.** The core allocation was fully utilised and spent in the main on Estates and Asset Management Services (EAMS) including statutory compliance and backlog maintenance (£3 million), medical equipment (£3.5 million) and radiotherapy equipment (£2.8 million). The £4.3 million of non-core allocation relates to the NHS Scotland Pharmaceuticals Specials Service HUB project.

## Budgetary processes

**43.** We reviewed NHS Tayside's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and members receive regular financial information on the board's financial position throughout the year, which allows them to scrutinise the board's finances.

**44.** NHS Tayside currently uses an incremental approach to budget setting, based on historical patterns, but is developing an enhanced budget setting process linked to enhanced service planning and based on a longer term commitment to the delivery of transformational change and financial sustainability.

**45.** Concerns have also been raised at the Finance and Resources Committee about the timing of information on the proposed annual budget with information on the 2017/18 budget not being presented to the Committee and the Board until March 2017. This is acknowledged by the board and improvements are planned.

**46.** The enhanced business planning and budget reporting is planned to be fully in place for 2018/19, and will include regular reporting to the Finance and Resources Committee and bringing forward the budget timetable.

## Internal controls

**47.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NHS Tayside has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**48.** Our findings were included in an interim audit report presented to the Audit Committee on 11 May 2017. We concluded that the controls put in place by

management are generally sound and are operating effectively. No significant internal control weaknesses were identified during the audit which could affect NHS Tayside's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Prevention and detection of fraud and irregularity

**49.** We have a responsibility for reviewing the board's arrangements for the prevention and detection of fraud. Our audit work, in this area, covered a number of areas such as whistleblowing and liaison with Counter Fraud Services.

**50.** We concluded that NHS Tayside is proactive in promoting fraud awareness and has adequate arrangements in place for fraud detection and prevention during 2016/17.

## National Fraud Initiative

**51.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

**52.** NFI activity in NHS Tayside is summarised in Exhibit 5 and highlights that the board has made progress in investigating those matches issued to the board at the end of January 2017 that were recommended for investigation.

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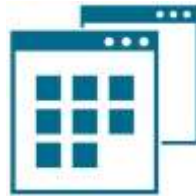
## Exhibit 5

**Total number of matches**



**5,676**

**Number recommended for investigation**



**456**

**Completed/closed investigations**



**190**

Source: NHS Tayside Fraud Liaison Officer

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**53.** NHS payroll data was not included in the initial 2016/17 NFI data matching process. Therefore, NHS payroll matches were not included in the matches released to participating bodies in January 2017 and were only released to relevant bodies in mid-May 2017. As a result, NHS payroll matches are not included in Exhibit 5.

**54.** Officers provided an update on NFI progress to the Audit Committee in March 2017, which informed members of the number of matches identified and the number recommended for investigation.

**55.** The current NFI exercise is at an early stage and NFI investigation work is still ongoing for the 2016/17 NFI process. NHS Tayside is proactive in investigating matches and there are no issues of concerns at the current time which we would require to highlight in this report. We will report further progress to the audit committee when appropriate.



## **Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

**56.** The board has a range of activities in place as detailed in their Code of Corporate Governance designed to maintain standards of conduct including Codes of Conduct for members and officers. Also, there are established procedures for preventing and detecting bribery and corruption including maintaining a register of interest for board members and declaration of interests being a standard agenda item for every committee and board meeting.

**57.** Based on our review of the evidence, we concluded that the board has adequate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

# Part 3

## Financial sustainability



### Main judgements

**The board continues to face an extremely challenging position. For 2017/18 alone the financial plan is projecting a funding gap of £49.8 million. Some of the efficiency savings required to deliver a balanced financial position in 2017/18 have yet to be identified or are high risk.**

**The Board's five year transformation programme is critical to delivering efficiency savings, to achieve financial balance over the medium term. The programme has delivered substantial cost reductions to March 2017 through efficiency and productivity reviews, but further savings will be required on a recurring basis which can only come from service redesign and transformation.**

**An independent Assurance and Advisory Group (AAG) will report on the board's financial planning and deliverability of its 5 year transformation programme.**

### Financial planning

**58.** Going forward, the board is facing an extremely challenging position which will make it difficult to achieve financial balance.

**59.** NHS Tayside's draft Local Delivery Plan (LDP) for 2017/18 to 2019/20 sets out how the board's financial, workforce and service plans implement its strategic priorities. The draft LDP was approved by the board on 27 March 2017 and was submitted to the Scottish Government in line with the required timescales. The board is due to submit its final LDP to the Scottish Government in September 2017. In March 2017, NHS Tayside also presented an internal five year financial framework 2017/18 to 2021/22 (the financial plan) to the Board, setting out how the board plans to first achieve financial balance and then repay brokerage. The financial plan forecasts a deficit of £4 million in 2017/18 and thereafter to achieve breakeven for the subsequent 4 years.

**60.** The plan shows the board is required to achieve efficiency savings of £49.8 million to deliver financial breakeven in 2017/18 but plans to achieve £45.8 million, with the balance of £4 million funded through additional brokerage. The plan describes the main cost pressures as pay costs; prescribing costs; the cost of using agency staff and revenue to capital transfer. Efficiency savings will play a crucial part in bridging this gap in 2017/18 and £5 million of the 2017/18 savings are considered to be high risk or unidentified.

**61.** At the same time there are significant funding pressures over the period of the plan. The basic funding uplift for 2017/18 is 1.5%, followed by a planned uplift of

Financial sustainability looks forward to the medium and long term. We consider whether the board is effectively planning how it will deliver its services in the future.

2.1%, 1.8%, 1.9% and 2% respectively for each of the following four financial years to 2021/22.

## Asset disposals

**62.** The previous auditor's 2015/16 annual audit report acknowledged that the board's asset disposal strategy was a key element of the work toward reaching a breakeven financial position. The auditor noted that it is important that the anticipated value and timing of the sales are closely monitored to ensure they remain realistic. Management noted that the disposal programme is scrutinised by the transformation programme's property workstream and this is reported through the transformation programme board.

**63.** The board's corporate finance report to March 2017 shows that £4.5 million of asset sale proceeds were forecast for 2016/17 but only £1.9 million of sales proceeds were achieved. After review by the property workstream, the levels of asset disposal proceeds to be included in the board's planned efficiency savings for the period 2017/18 to 2019/20 were significantly reduced to what the board considered to be a more realistic level at £2.9 million for 2017/18 and £2.5 million per annum for 2018-20.

**64.** We have concluded that the transformation programme board actively monitors the board's asset disposal programme.

## Medium to long term efficiency savings

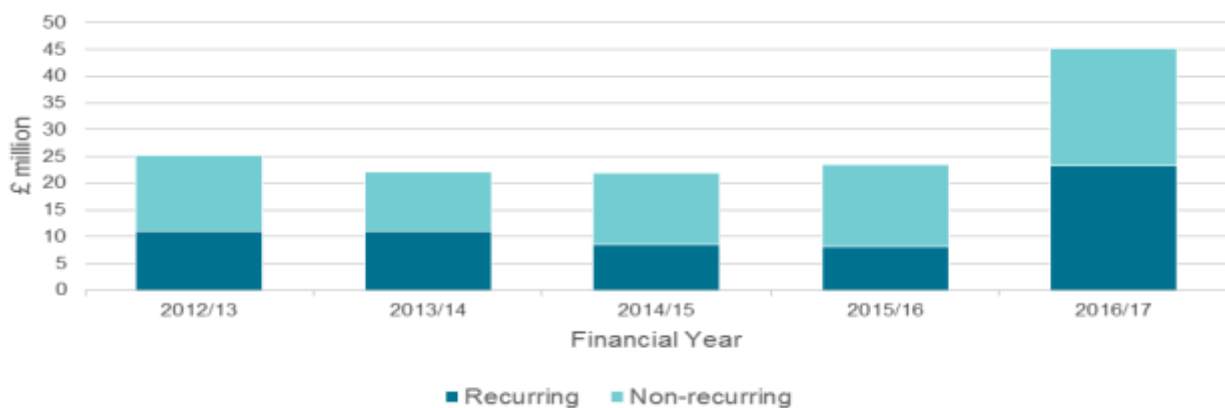
**65.** NHS Tayside plans to achieve efficiency savings of 6.4% of baseline RRL in 2017/18. This is equivalent to a saving of £45.8 million with £23.1 (50.4%) planned to be on a recurring basis. This is a significant challenge for the board given that some of the efficiency savings required in 2017/18 have yet to be identified or are high risk.

**66.** Beyond that, the board is planning to achieve financial balance for each of the subsequent years from of the 5 year plan, from 2018/19. Annual efficiency savings of £40 million will be required to break even. Most of the savings required are unidentified or are high risk.

**67.** NHS Tayside has been reliant on non-recurring savings in recent years but recognises that this situation is not sustainable as it only buys the board breathing space in the short term. Exhibit 6 shows the split of recurring to non-recurring savings in recent years.

## Exhibit 6

### Savings – recurring and non-recurring



68. Exhibit 7 shows how the 2017-20 financial framework plans to increase the proportion of recurring efficiency savings.

## Exhibit 7

### Savings forecast 2017/18 to 2021/22

	2017/18	2018/19	2019/20	2020/21	2021/22
Recurring	23.100	22.000	24.000	24.000	24.000
Non-recurring	22.700	18.000	16.000	16.000	16.000
<b>Total</b>	<b>45.800</b>	<b>40.000</b>	<b>40.000</b>	<b>40.000</b>	<b>40.000</b>
% recurring	50.4%	55.0%	60.0%	60.0%	60.0%
% of RRL	6.4%	5.4%	5.3%	5.2%	5.1%

Source: NHS Tayside Draft Financial Framework 2017/18 to 2021/22

69. In recent years the board has found it difficult to achieve its savings targets and, in our opinion, the board will struggle to achieve its saving targets in future years with many of the 'easier' savings already made. Going forward the transformation programme and the impact on the way services are delivered will be critical to the delivery of recurring savings.

## Recommendation 2

**The board should ensure that savings plans are urgently developed which fully detail the delivery of the 2017/18 savings and how the £5 million high risk element will be delivered. Detailed plans showing how the savings requirements of £40 million per annum thereafter will be achieved should also be prepared and progress on savings reported to the Finance and Resources Committee.**

70. In April 2017, the Scottish Government established an independent Assurance and Advisory Group (AAG). The group's terms of reference and work plan are designed to provide independent scrutiny and challenge on NHS Tayside's financial planning and the deliverability of its 5 year transformation programme. A staging report is due to be issued on the group's findings in June 2017, but was not available at the time of writing this report. We will consider the group's findings and the board's response to these as part of our ongoing audit work in 2017/18.

## Brokerage repayment

71. NHS Tayside has received £37.5 million of brokerage from the Scottish Government since 2012/13 (Exhibit 8), including £13.2 million in 2016/17 to help it achieve financial balance. Of this amount £33.2 million is still to be repaid by NHS Tayside. The board anticipates that it will require a further £4 million of brokerage in 2017/18.

## Exhibit 8

### NHS Tayside brokerage and repayment

Year	Brokerage received (£million)	Repaid (£million)	Balance outstanding (£million)	Repayment details
2016/17	13.2	0	33.2	Not repaid
2015/16	5.0	0	20.0	Not repaid
2014/15	14.2	4.1	15.0	Not repaid
2013/14	2.9	0.2	4.9	£2.1 million repaid in 2014/15
2012/13	2.2	N/A	2.2	£0.2 million repaid in 2013/14 and £2 million repaid in 2014/15

Source: Audit Scotland

**72.** The board plans to achieve financial balance by 2018/19 and then plans to repay its brokerage by 2021/22.

### Transformation programme

**73.** To achieve its ambitious financial plan, NHS Tayside is reliant on its five year transformation programme covering the period 2017/18 to 2021/22 which aims “to improve the sustainability of services and enhance the quality of care”. The transformation programme was initially established in 2015 and the focus of the plan was based on improved productivity and efficiency, service redesign and transformation. The service transformation is also key to supporting the board’s aspirations for improved patient outcomes.

**74.** The programme is focused around six workstreams, underpinned by local clinical strategies and service redesign priorities and is overseen by a transformation board. The workstreams are: Workforce and Care Assurance (for all staff); Realistic Medicine (pathways diagnostics and prescribing); Repatriation of Patients (to NHS Tayside and ensuring appropriate out of area referrals); Better Buying and Procurement; Facilities and Estates (managing the infrastructure and support environment for all services); Property (managing the disposal and sale of premises not required for delivering healthcare services).

**75.** The Auditor General for Scotland’s 2015/16 report on NHS Tayside’s Financial Sustainability reported on the expensive operating model deployed in NHS Tayside in comparison to other Health Boards. NHS Tayside recognises its outlier position and in its transformation programme is committed to addressing its operating model “by transforming the way we (NHS Tayside) deliver health and care”.

**76.** The transformation programme has delivered substantial cost savings through efficiency and productivity measures e.g. a reduction in nurse agency costs of £1m (20%) from 2015/16 has been delivered through changes to nursing workforce arrangements. Going forward however, the board will need to deliver further savings on a recurring basis which will necessitate service redesign and transformation. 2017/18 onwards is seen as a critical period for delivering the transformational change required to ensure the financial recovery plan is achieved,

and at the same time meet the board's aspiration of enhanced quality of care. It is critical that the pace of change is monitored closely to ensure the programme is successful in delivering these objectives in a timely manner.

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### Recommendation 3

**The board should ensure that the pace of transformational change is closely monitored and reports submitted to the Board on the transformation programme. The reports should take account of any findings reported by the Assurance and Advisory Group in their staging report.**

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### Financial capacity

**77.** There is increasing pressure on finance officers who provide financial support for the transformation programme alongside their ongoing finance function duties. An Executive restructuring began in 2016/17, including a restructuring of the finance directorate. The finance directorate restructuring is currently in transition, with a number of vacancies remaining at management levels. We understand that the revised structure will not be fully in place before the Autumn of this year.

**78.** The board has acknowledged that 2017/18 is a critical year in delivering efficiencies through the transformation programme and therefore it is essential that an appropriate finance structure is in place, appropriately skilled to support the transformation process in a timely manner.

**79.** Internal Audit also recognised the need for appropriately skilled finance staff in their report T22/17 – Follow Up of Financial Planning and Management where they recommended that “A Finance Workforce Plan should be developed to ensure that a planned approach to the training and recruitment of finance staff is in place to ensure that there is sufficient capacity to meet the changing demands which will be placed on Finance Directorate staff to support the delivery of transformational change and achieve financial sustainability”.

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### Recommendation 4

**The board should closely monitor the restructuring of the finance directorate to ensure appropriate financial capacity is in place to support the transformation programme. The board should monitor the pace of change with the restructuring to ensure support is provided in a timely manner.**

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### Asset management

**80.** NHS Tayside is required to manage its hospitals, community buildings and other assets, such as medical equipment, in an effective way to ensure patients receive high quality care.

**81.** NHS Tayside's annual Property and Asset Management Strategy (PAMS) Update 2016 was considered by the Finance and Resources Committee in August 2016. The PAMS update provides information on the condition of the board's estate and the level of backlog maintenance.

**82.** NHS Tayside faces significant challenges in reducing backlog maintenance due to the size and age of its property portfolio. £101.3 million of backlog expenditure is required, £38.5 million of which is assessed as 'significant' risk and £34.6 million as 'high' risk.

**83.** Backlog maintenance expenditure in 2016/17 was £3 million (£2.8 million in 2015/16) and the financial plan includes a backlog maintenance budget of £3.1 million for 2017/18, with £2 million identified for each subsequent year. NHS Tayside recognises that the backlog maintenance budget is being constrained at a time when significant investment is required to maintain and upgrade infrastructure. Comparing the level of backlog maintenance required to the available funding, the resources may not be adequate to maintain the board's estate. In this situation there is a risk that the board's property assets could deteriorate, leading to an impact on service delivery.

**84.** NHS Tayside's PAMS includes a number of measures aimed at reducing the risk including: ensuring investment plans clearly indicate investment prioritised for high and significant risk backlog maintenance; incorporating backlog works within major modernisation and refurbishment projects; progressing a property disposal strategy to avoid backlog maintenance and at the same time reduce its operating costs and reduce carbon footprint.

## Workforce planning

**85.** In February 2017, the Auditor General for Scotland published a data briefing on Scotland's NHS Workforce. It highlighted that NHS staff numbers are at their highest ever level, but there are key issues relating to the workforce. These include an ageing workforce, vacancy rates, increased spending on agency staff and sickness absence levels.

**86.** NHS Tayside faces all of these workforce challenges as well as the likely change in the roles and skills required of the workforce arising from the National Clinical Strategy, integration of health and social care services and a new GP contract. The Auditor General's 2015/16 Financial Sustainability report also noted that in order to achieve longer term sustainability, NHS Tayside has to make savings on workforce spending and that the board had consistently higher staffing numbers and costs in comparison to other Scottish NHS Boards.

**87.** The board is revising its workforce plans to recognise these challenges through its transformation programme and service redesign but it will take time for the benefits to be realised. Workforce challenges remain at NHS Tayside in relation to medical workforce, workforce optimisation and nursing and midwifery workforce. The board has also invested in an electronic tracking system for medical records which has improved medical record keeping and released administration resources.

**88.** NHS Tayside has a high level of ageing workforce, which presents a risk to longer term sustainability of the workforce and its capacity to deliver effective services. As at April 2017, 39.7% of NHS Tayside's workforce is aged 50 or over.

**89.** The board has plans in place to reduce the risk in this area by developing its retention initiatives with a view to encouraging staff to NHS Tayside, including enhancing work practices through extending part time working and encouraging nurses to 'return to practice' through assisting re-accreditation. The board recognises, however, that plans may not be sufficient to reduce the risk to an acceptable level, particularly in the nursing and midwifery cohort.

**90.** Nursing and midwifery workforce provides the biggest workforce challenge due to a national shortages and local workforce demographics. NHS Tayside has identified a risk that it will be unable to recruit and retain sufficient numbers of registered nurses and midwives, which could result in a failure to maintain safe and effective nursing and midwifery staffing levels.

**91.** NHS Tayside has recognised the challenge of supplementary staffing and have introduced a number of measures to control these costs including implementing a direct engagement model for medical agency locums, more effective rostering (including the roll out of eRostering) and review of nurse bank operational

arrangements. The board has also agreed a nursing and midwifery 'attraction and recruitment strategy, due to be in place by September 2017.

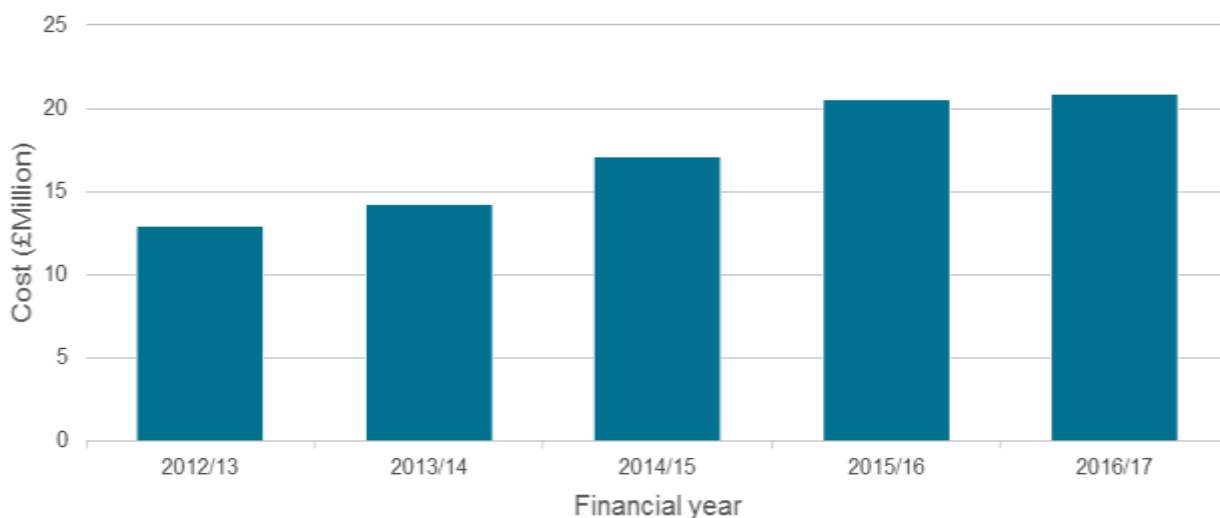
**92.** Recruitment and retention of staff remains a challenge, with high turnover rates. In 2015/16 the rate was 9.2% compared to the national average of 6.4%. Data reported in April 2017 shows the turnover rate remains high, although it has reduced slightly to 8%.

**93.** As a result of recruitment and retention problems, and pressures to meet waiting time targets, the amount spent on supplementary staff costs (excess hours, overtime, bank and agency costs) has increased over the last five years, as illustrated in Exhibit 9. Supplementary staffing provides flexibility in the short term by providing cover for sickness absence and vacancies but that comes at a cost. Supplementary staff costs as a proportion of total staff costs have increased from 3.5% in 2014/15 to 3.9% in 2016/17.

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## Exhibit 9

### Supplementary staff costs



Source: NHS Tayside annual report and accounts 2012/13 to 2016/17

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**94.** The use of staffing (principally agency staff) can cost significantly more than permanent staffing and this puts pressure on the board's budget and does not represent value for money. During 2016/17 measures were put in place to control the costs more effectively and as a result the increase in costs is not of the same level as previous years.

**95.** Supplementary staff expenditure for 2016/17 was £20.8 million, compared to £20.4 million for 2015/16. A breakdown of supplementary staff costs is included at Exhibit 10.



## Exhibit 10

### Supplementary staff costs breakdown

	2016/17 £ million	2015/16 £ million	Change £ million
Excess part time hours	3.2	3.4	-0.2
Overtime	3.3	3.1	0.2
Bank staff	5.3	4.7	0.6
Agency costs	9.0	9.2	-0.2
<b>Total</b>	<b>20.8</b>	<b>20.4</b>	<b>0.4</b>

Source: NHS Tayside Corporate Finance Report March 2017

**96.** For 2016/17, bank costs have increased by £0.6 million and agency costs decreased by £0.2 million compared to the previous year. The increase in bank costs reflects more extensive use of the nurse bank with the aim of reducing premium agency costs. The agency costs reduction is only £0.2 million but this masks significant movements in nursing and medical agency costs. Nursing agency costs have reduced by £1 million (20%) in 2016/17 through increased use of nurse bank whereas medical agency costs have proven more difficult to control, showing an increase of £0.9 million (28%) compared to 2015/16.

**97.** NHS Tayside, like most NHS boards, is continuing to find it difficult to achieve the national performance standard of 4% for sickness absence, despite measures to maximise attendance at work. At March 2017, the sickness absence rate was 4.8%. This is an improvement compared to the March 2016 rate of 5.0% and a better position than the Scottish average of 5.2%. NHS Tayside aims to improve sickness absence levels through supporting positive attendance and promoting employee well being.

# Part 4

## Governance and transparency



### Main judgements

**NHS Tayside has appropriate governance arrangements in place that support scrutiny of decisions made by the board.**

**NHS Tayside is open and transparent in the way it conducts its business, but public performance reporting could be improved.**

### Governance arrangements

**98.** We reviewed the board's governance and accountability arrangements which included:

- confirming that the governance framework and governance arrangements, including decision-making and scrutiny, are regularly reviewed and updated to ensure they remain effective
- assessing the effectiveness of decision-making to ensure it is balanced by effective scrutiny and challenge by those independent of the body
- confirming that there is effective scrutiny and challenge in place over policy decisions, service performance, and programme management
- confirming that decision makers have the information they need to scrutinise, challenge and make best value and transparent decisions
- ensuring that it is clear what decisions have been made, who made them and the rationale supporting the decisions.

**99.** We concluded that overall the board's arrangements are appropriate and adequate in that they support good governance and accountability. Members have, however, identified that the financial reporting process requires improvement to ensure that reports are accessible, contain relevant information, and are easily understood. The board has reported that Board and Committee reports are to be improved to clarify the likely impact of decisions on the Board's activity and finances, efficiency, productivity and overall outcomes.

Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making. Transparent reporting of financial and performance information is expected by public bodies.

### Internal audit

**100.** Internal audit provides the Board and Accountable Officer with independent assurance on NHS Tayside's overall risk management, internal control and corporate governance processes such as the roles and responsibilities of committees.

**101.** The internal audit function is provided by FTF Audit and Management Services. We carried out a review of the adequacy of the internal audit function and concluded that it generally operates in accordance with the Public Sector Internal

Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**102.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's review of key controls through their work on financial process compliance in payroll. Also, we considered internal audit report findings as part of our wider dimension work.

## Information and communication technology (ICT)

**103.** During 2016/17 our primary focus was to develop our knowledge of how the board delivers eHealth services. We did this by performing an ICT overview (health-check). The health-check allows us to make an initial high-level assessment about how an organisation manages the delivery of its ICT services and can also identify emerging areas that should be considered for future review. Our general conclusions are that:

- appropriate management arrangements are in place to assure the delivery of eHealth services
- the local eHealth delivery plan is aligned with both the NHS Scotland eHealth Strategy and the board's transformation programme, with progress routinely reported both to the Scottish Government and the local eHealth Clinical Strategy Group
- delivery of the local eHealth plan is supported by an agreed five-year financial plan
- there are no significant vacancies within the established eHealth department structure, which experiences minimal staff turnover
- the board have recently transferred their server infrastructure from poorly maintained local server rooms to a specialist third party data centre, which has reduced a number of long-recognised ICT environmental risks and provides a good basis from which the board can seek to further improve general systems resilience.

**104.** We identified two key challenges currently facing the eHealth department:

- The development and implementation of an ISO 27001 compliant Information Security Management System (ISMS) by July 2017, as directed by the Scottish Government's Department Letter DL (2015)17. The risk of not achieving this requirement continues to be noted within the board's corporate risk register.

An improvement action plan was agreed in January 2017. This has been supported by an improved level of engagement between the eHealth and Information Governance teams and there is now increased confidence that the majority of the ISMS documentation will be in place by the July 2017 deadline

- The migration of the board's legacy inpatient, outpatient and Accident and Emergency systems to the integrated TrakCare Electronic Patient Record (EPR) system. This programme has experienced significant delays, with the initial phase of implementation delayed from February 2017 to June 2017. Management took the decision to delay the programme as it was not convinced that all of the necessary processes were in place for the programme at this stage.

The main impact of this delay is that additional costs have been incurred to allow continued use of the legacy systems. In addition there are likely to be consequent delays in delivering other eHealth programmes. We understand

the work towards achieving the rescheduled implementation dates remains on track, however until the migration is successfully completed the risk of further delays and additional costs remains.

**105.** On 12 May 2017, a number of health bodies in Scotland, including NHS Tayside, were affected by a global ransomware cyber attack. Within NHS Tayside the attack affected 10 GP Practices and operating systems were restored over a weekend period, with minor disruption to appointments and services.

**106.** In common with all NHS Scotland boards, there is currently no planned upgrade path from the Microsoft Office 2007 desktop used across the board. Microsoft will stop supporting this in October 2017, increasing the risk of cyber-attack via unpatched software. This places an increased reliance on the board's cyber security tools to protect their infrastructure. Against this background we will consider including a review of the board's management arrangements and approach to cyber security in our 2017/18 audit.

## Risk management

**107.** NHS Tayside's risk management arrangements revolve around a Board Assurance Framework (BAF) Strategic Risk Profile which aims to identify the strategic risks that could impact on the delivery of NHS Tayside's objectives. These arrangements include the provision of regular risk management reports to the Audit Committee throughout the year.

**108.** The board has also completed the CIPFA self assessment and audit checklist which was reviewed by the Audit Committee in May 2017. This provides internal assurance over the systems and processes in place for risk management.

**109.** In 2017, Internal Audit undertook a review of the BAF, reporting their findings to the March Audit Committee. Internal audit's overall conclusion was that there is an adequate and effective system of risk management, control and governance to address risks to the achievement of objectives, although minor weaknesses are present. However, Internal Audit provided a separate audit opinion of 'inadequate' for the arrangements relevant to the IJBs' governance.

**110.** Internal Audit reported that there is a lack of clarity of the impact of Health and Social Care Integration (HSCI) on the accountability structures in place and there are a number of elements of the Integration Schemes and risk management systems in each organisation which do not appear to be consistent. Internal Audit go on to note that readers of the BAF are not in a position to understand whether the information reported represents an accurate picture of the risks owned by the Board, the controls operated over those risks and the assurances which can be obtained by the Board.

**111.** An action plan point was raised by Internal Audit recommending that the responsibilities should be agreed and copied into the BAF framework as a matter of urgency. Some progress has since been made but as at May 2017, the arrangements relevant to the IJBs had not been fully clarified.

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## Recommendation 5

**The board should ensure that Internal Audit's recommendation in relation to risks arising from IJB related responsibilities is fully implemented and that the respective board and IJB responsibilities are agreed and incorporated into the BAF framework as a matter of urgency.**

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**112.** The lack of clarity over risk arrangements for IJB related functions presents a significant risk to service delivery and is an important omission from what are otherwise adequate and effective risk management arrangements.

## Transparency

**113.** Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

**114.** There is evidence from a number of sources which demonstrate the board's commitment to transparency including the annual accountability review (where members of the public can attend). Also, the Board and standing committee meetings are open to the public.

**115.** The board has a process for recording and analysing complaints. The board's performance in responding to complaints is reported in a board performance report which is included on the public section of the agenda of each meeting of the Board. In this way local residents are able to scrutinise performance in dealing with complaints.

**116.** NHS Tayside produces a number of performance reports which are presented to the Board (see paragraph 135 for further information). None of the performance information is brought together in a composite way and included on the NHS Tayside website. In our experience other organisations have developed a performance page within their website for local residents to obtain ready access to performance information. This is something we would encourage NHS Tayside to consider.

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### Recommendation 6

**The board should consider its arrangements for public performance reporting, including developing a performance page that local residents can access on the board's website. The performance page should be well sign posted.**

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**117.** Overall, we concluded that the board conducts its business in an open and transparent manner, although the board could improve current arrangements by improving access to performance information.

## Health and social care

**118.** Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force from 1 April 2016. This brings together NHS and local council care services under one partnership arrangement for each area. These health and social care partnerships are formally known as Integration Joint Boards (IJBs).

**119.** Integration means a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends, doing the things that give life meaning and value.

**120.** There are three IJBs within NHS Tayside's catchment area and these became fully operational on 1 April 2016. As discussed at paragraph 111, the board and its partners have continued to work together to develop IJB governance arrangements.

**121.** The board has good arrangements in place to identify all financial transactions that relate to each of the IJBs. There are also proper arrangements in place to agree the board's share of the IJB budgets and to provide each of them with appropriate financial information to enable each of the IJBs to monitor their financial budget. The board has notified the IJBs of their funding for 2017/18, which incorporates their share of the board's efficiency requirements. The 2017/18

IJB budgets have been approved and formal directions have been passed back to NHS Tayside from each IJB.

**122.** The Chief Officers of each IJB are members of the Chief Executive's Directors' Group and attend each Board meeting. In this way there is active participation by the Board and the IJBs in defining and measuring progress in connection with their strategic plans and against the national health and wellbeing outcomes.

**123.** Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This is not due until spring 2018. We plan to use this to assess progress once the work on this report has been completed.

## 2020 Vision

**124.** In 2011 the Scottish Government set out an ambitious vision for health and social care that by 2020 everyone is able to live longer, healthier lives at home or in a homely setting. In August 2015 the Cabinet Secretary for Health, Well-being and Sport opened a national conversation on creating a healthier Scotland which aimed to increase the pace of progress towards the 2020 Vision.

**125.** As well as providing a plan to achieve financial sustainability, the transformation programme has also been designed with the intention of supporting the delivery of changes to: improve patient outcomes, quality and safety as indicated in the NHS Tayside 2020 Vision.

**126.** The transformation programme is underpinned by a number of individual service clinical strategies and plans. However, NHS Tayside does not have an overarching integrated clinical strategy, which clearly articulates and prioritises its clinical aims. This was raised at the 27 March 2017 Finance and Resources Committee where members minuted *"that it was time to revisit the clinical strategies and clarify the strategic direction of the organisation. There was a need to look at this as a whole with the impact on property and the transfer of resource. There needed to be discussion and decisions taken as the current situation could not continue and had to change"*.

**127.** NHS Tayside has therefore recognised this and plans to address this gap by developing an overarching clinical strategy, however there is a lack of clarity over when this is planned to be delivered. At this stage it is not clear when the strategy will be finalised and until the board puts this in place, there is a significant risk that the transformation programme will not deliver the right change, at the right time.

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## Recommendation 7

**An over-arching clinical strategy should be developed as soon as possible and should be approved by the Board. This should form the basis for the board's service and financial planning.**

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**128.** We have concluded that the board gives the 2020 Vision the appropriate profile and has plans in place to work towards the delivery of the 2020 Vision. However, the absence of an up to date, over-arching clinical strategy puts the effectiveness of the transformation programme at risk which could hinder progress towards the 2020 vision.

## Equalities

**129.** The Equality Act 2010 introduced a new public sector 'general duty' that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years

thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**130.** NHS Tayside Board approved their Mainstreaming and Equality Outcomes 2017 -2021 report at its meeting in May 2017. We considered the report and concluded the board has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the board
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay-gap information.

**131.** NHS Tayside has an Equality Impact Assessment Policy in place to support the mainstreaming of equality, diversity and human rights. The policy notes that any measures for improvement that may lead to a service redesign or service improvement will be subject to an Equality Impact Assessment. As NHS Tayside progresses its transformation programme, it will need to ensure timely and relevant equality impact assessments are undertaken.

**132.** We concluded, on the basis of evidence considered that, in the main, the board is proactive in ensuring that equality is mainstreamed.

# Part 5

## Value for money



### Main judgements

**The board's performance against its 16 non-financial LDP Standards as reported in the 2016/17 annual report and accounts is variable, with 50% of the standards not being met as at March 2017.**

**The board has an effective performance management framework in place. Going forward, we will monitor the effectiveness of the arrangements in supporting the board's transformation programme and driving change.**

### Performance management

**133.** The Scottish Government monitors how NHS Tayside performs against standards it sets in its national performance framework (LDP standards). These include targets and their trajectories (plans) as set out in the board's LDP. Examples include waiting times for accessing treatment such as the proportion of patients that were seen within 12 weeks otherwise known as the Treatment Time Guarantee.

**134.** Overall, NHS Tayside's performance is variable, with eight (50%) of the non-financial LDP standards not being met. We recognise the difficulty in maintaining service standards with the challenging financial position and while the board aims to meet LDP standards, priority has been given to maintaining financial balance over achievement of the standards.

**135.** The Board is kept well informed of performance across all areas. At each meeting of the Board, which are approximately bi-monthly, members are provided with a performance report (key metrics report). Members also receive supplementary reports on specific aspects of performance e.g. waiting times, Healthcare Associated Infection (HAI) and the financial position. These enable members to focus on key risks relating to access to treatments, patient care and financial. These reports provide performance information against the LDP standards.

**136.** The Board's key metrics reports (performance reports) are presented to Board members "for noting". Greater scrutiny of performance would be evident if the reports were presented as "matters on which discussion is expected".

**137.** We concluded that NHS Tayside has an effective performance management framework in place but scrutiny of performance could be improved if performance information was presented to members for discussion rather than noting. Going forward, we will monitor the effectiveness of the arrangements in supporting the board's transformation programme and driving change.

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



## Overview of service performance

**138.** There are 17 non financial standards reported on by the board but one has no national target set. The board's performance against the remaining 16 non-financial LDP standards, as reported in the 2016/17 annual report and accounts, is variable. Of the 16 standards, 8 were categorised as being met or exceeded and 8 as not being met.


**139.** More details on areas where the board is failing to meet the targets are provided in Exhibit 10.

### Exhibit 10

#### Performance against key LDP standards

Target/standard	Performance at March 2017 <sup>1</sup>	Position statement as at February 2017 <sup>2</sup>
<p><b>Treatment Time Guarantee (TTG)</b></p> <p>Proportion of patients that were seen within 12 weeks TTG</p> <p>Standard: 100%</p>	<p>● 81%</p> <p>(15/16 81%)</p>	<p>Whilst Orthopaedics and General Surgery have the large volumes of patients waiting over 84 days and continue to remain a challenge, these specialities are currently within their performance trajectories for the year with implementation of recovery actions having the impact anticipated. However, Urology are currently outwith their trajectory and now are the speciality with the greatest volume of patients waiting greater than 12 weeks. The service has two Consultants due to commence in April 2017 which will support improved service capacity.</p>
<p><b>12 Weeks First Outpatient Appointment</b></p> <p>Percentage of patients waiting no more than 12 weeks from referral to first outpatient appointment</p> <p>Standard: 95%</p>	<p>● 86%</p> <p>(15/16 88%)</p>	<p>Performance in respect of ongoing waits over 12 weeks places performance ahead of the revised trajectory. Specialities are now on plan to deliver their revised trajectory, however some risks remain regarding the ability to secure the level of independent sector support required.</p> <p>The five specialities with the greatest number of patients waiting over 12 weeks were Gynaecology; General Surgery; Vascular Surgery; Urology and Dermatology. Gynaecology, Gastroenterology and Dermatology all have secured additional capacity through the independent sector to reduce their current queues, whilst General Surgery are planning to deliver additional activity in house. Vascular Surgery have recruited to a technician post within the vascular laboratory as well as filling a consultant vacancy which will support a reduction in the queue during the final quarter of 2016/17. As reported above, Urology have successfully recruited to two Consultant posts, with staff due to commence in April 2017.</p>

Target/standard	Performance at March 2017 <sup>1</sup>	Position statement as at February 2017 <sup>2</sup>
<p><b>Cancer Treatment</b></p> <p>Percentage of patients beginning treatment within 31 days of decision to treat</p> <p>Standard: 95%</p>	<p>● 89%</p> <p>(15/16 89%)</p>	<p>The Urology pathway, presents the greatest challenge in supporting achievement of the 31 day standard. Performance across all other tumour sites was above the 95% threshold. The Urology service successfully appointed to two consultant vacancies, however these individuals do not have a prostate specialism and therefore there will remain a single-handed consultant for the delivery of laparoscopic prostatectomy which is the greatest contributory factor to our 31 day performance.</p>
<p><b>Cancer Treatment</b></p> <p>Percentage of patients beginning treatment within 62 days of urgent referral</p> <p>Standard: 95%</p>	<p>● 88%</p> <p>(15/16 93%)</p>	<p>Breaches for Colorectal, Gynaecology and Head &amp; Neck were all due to delays at the start of the patients' pathways, and have been shared with the services to support learning and improvement. A Cancer Pathway Forum will be established in early 2017-18 to provide a dedicated forum to support cross-directorate review of cancer pathways alongside review of the cancer waiting times performance. The Cancer Pathway Forum will focus on the Breast, Prostate and Colorectal pathways in the first instance, and will support the development of improvement plans</p>
<p><b>Psychological therapy</b></p> <p>Percentage of patients to start treatment within 18 weeks of referral</p> <p>Standard: 90%</p>	<p>● 72%</p> <p>(15/16 87%)</p>	<p>The decline in performance is due to the reduction in service capacity due to maternity leave and career breaks in Clinical Health Psychology and capacity issues within Older Adult Psychology and Perth tier 3 Clinical Psychology General Adult Psychiatry service. Improvements are not anticipated until vacancies have been appointed too and staff return from maternity leave.</p>
<p><b>Staphylococcus Aureus Bacteraemia (SABs)</b></p> <p>Rate of SABs per 1,000 total occupied bed days</p> <p>Standard: 0.24</p>	<p>● 0.42</p> <p>(15/16 0.35)</p>	<p>NHS Tayside complete the national documentation in relation to SABs. For any SAB that is deemed to be preventable, the clinical area identified as the probable source are required to undertake a local incident review which will involve a member of the Infection Control Team. The SAB is also entered into DATIX, the NHS Tayside system used to document adverse incidents. Any learning from the review is shared in a number of fora within NHS Tayside<sup>3</sup>.</p>
<p><b>People diagnosed and treated in the first stage of breast, colorectal and lung cancer</b></p> <p>Increase the proportion to 29%</p>	<p>● 23%</p> <p>(15/16 24%)</p>	<p>NHS Tayside delivered a 2.5% improvement from baseline that was greater than across Scotland. The proportion of earlier stage 1 and stage 2 cancers from the total cancer stages 1, 2,</p>

Target/standard	Performance at March 2017 <sup>1</sup>	Position statement as at February 2017 <sup>2</sup>
		3 and 4 improved in Tayside to 52.2%, comparing favourably with NHS Scotland performance at 50%. NHS Tayside's diagnostic services have significantly increased the number of colonoscopy's undertaken, chest x-ray referrals from GPs, and symptomatic breast clinic attendances indicating that people in NHS Tayside are making greater use of opportunities for early detection of breast, colorectal and lung cancers <sup>3</sup> .
<p><b>18 weeks Referral to Treatment (RTT)</b></p> <p>Percentage of patients seen and treated within 18 weeks from initial referral.</p> <p>Standard: 90%</p>	<p> 87%</p> <p>(15/16 88%)</p>	<p>RTT is impacted by the current waits for outpatients and TTG described above. The February 2017 position improved with 84.4% compared to January 2017 (83.1%).</p> <p>The main area of challenge is admitted pathway, which showed a slight improvement in February 2017 to 53.4% from 51.1% in January 2017. Of the specialties with completed pathways in February 2017, Gastroenterology, Community Dental Practice, OMFS and Medical Paediatrics achieved the admitted pathway standard; however these are all specialties with low volumes requiring inpatient treatment. There were 13 specialties with completed activity that did not achieve the admitted pathway standard in February 2017. These 13 include the specialties that currently have recovery plans in place for TTG.</p>

Sources:

1. NHS Tayside annual report and accounts and NHS Tayside key metrics report to February 2017 (Figures still to be validated by NHS Information Services Division. Where March 2017 data is not yet available, the most recent data is used)
2. Extract from the latest available key metrics report to February 2017
3. Chief Operating Officer

## Shared services

**140.** The financial challenges facing the health service in Scotland are well documented. The speed at which substantial changes are needed within the NHS means that greater sharing of services between boards is vital if the Scottish Government is to achieve the overall ambitions of the 2020 vision and beyond. In 2015, the Scottish Government established a transformational programme board including senior representatives from NHS boards to try to provide greater coordination across boards and various healthcare programme and initiatives.

**141.** NHS Tayside is also committed to working as part of regional planning networks to provide its regional and national services as a provider and as a partner. The final LDP to be submitted to the Scottish Government in September 2017 will require details of NHS Tayside's participation in the nationally led regional planning initiative and delivery aspects will need to be more fully developed by then. NHS Tayside sees this initiative, in conjunction with the local Transformation

Programme, as key elements in returning NHS Tayside to a sustainable financially balanced position. We will monitor progress with the initiative in 2017/18.

**142.** NHS Tayside engages with the NHS Procurement Shared Services transformation initiative. A project is also underway to formally integrate the NHS Tayside procurement team with NHS Lothian's procurement team. Shared management and working has existed for a number of years, to take advantage of the benefit of scale but the planned next step is a merger of the two services. The most recent Public Procurement Reform Programme's (PPRP) Capability Assessment was undertaken in May 2016 and assessed the NHS Lothian and NHS Tayside's procurement functions as Band A+ (Superior Performance).

**143.** Continuing success with the procurement initiative and participating in shared services initiatives are areas that could provide NHS Tayside with opportunities to reduce its costs base and help it in its plans.

**144.** We have concluded that the board is proactive in seeking to explore shared services opportunities.

### **National performance audit reports**

**145.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 3](#) accompanying this report.

**146.** NHS Tayside has processes in place to ensure that all national performance reports and their impact on the board are considered by the Audit Committee and other governance committees, as appropriate.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
10	<p><b>1. Balance Sheet: Revaluation Reserve</b></p> <p>The NHS Scotland Unified Board Accounts Manual requires an amount equal to the excess of actual depreciation over depreciation based on the historic cost to be transferred from the revaluation reserve to the general fund. The board has not been accounting for this transfer in 2016/17 or in previous years. The board has estimated the value of the transfer for this year to be £7.2 million.</p> <p><b>Risk</b></p> <p>The classification of reserve balances reported by the board will be incorrect if the annual depreciation adjustment is not made.</p>	<p>The board should introduce a process to ensure the appropriate transfer is calculated and applied from 2017/18.</p>	<p>The methodology has now been applied in 2016/17 and will be used in future years.</p> <p>Responsible officer: Director of Finance</p> <p>March 2018</p>
20	<p><b>2. Efficiency savings</b></p> <p>For 2017/18 the board is aiming to deliver £45.8 million (6.4% of baseline RRL) of savings. The board has considered £5 million of these savings as high risk and they may not materialise. From 2017/18, the board is required to make savings of £40 million per annum to repay brokerage and break even.</p> <p><b>Risk</b></p> <p>The board may not be able to deliver the targeted savings in 2017/18 and later years.</p>	<p>The board should ensure that savings plans are urgently developed which fully detail the delivery of the 2017/18 savings and how the £5 million high risk element will be delivered. Detailed plans showing how the savings requirements of £40 million per annum thereafter will be achieved should also be prepared and progress on savings reported to the Finance and Resources Committee and the Board.</p>	<p>The Board continues to develop and progress efficiency savings plans across the wide spectrum of its cost base together with the exploration of income generation opportunities.</p> <p>Updates will be provided to each Transformation Programme Board, Finance &amp; Resources Committee and the Tayside NHS Board.</p> <p>Work will progress in 2017/18 on the Integrated Clinical Strategy and exploration through collaboration with colleagues on regional working</p>



Page  
no.

Issue/risk

Recommendation

Agreed management  
action/timing

Page no.	Issue/risk	Recommendation	Agreed management action/timing
22	<p><b>3. Transformation programme</b></p> <p>NHS Tayside is reliant on its five year transformation programme to improve the sustainability of services and enhance the quality of care. It is critical that the pace of change is monitored closely to ensure the programme is successful in delivering these objectives in a timely manner. The work of the Assurance and Advisory Group will inform on the deliverability of the programme.</p> <p><b>Risk</b></p> <p>The transformation programme may not deliver the changes needed to improve the sustainability of services and enhance the quality of care.</p>	<p>The board should ensure that the pace of transformational change is closely monitored and reports submitted to the Board on the transformation programme. The reports should take account of any findings reported by the Assurance and Advisory Group in their staging report.</p>	<p>setting a baseline for future year efficiency opportunities.</p> <p>Responsible officer: Director of Finance</p> <p>Ongoing</p> <hr/> <p>The Transformation Programme Board is designed to support the delivery of changes that will result in improving quality, safety and patient outcomes and cost effective service delivery.</p> <p>Cognisance will be taken of the findings from the Assurance and Advisory Group in their staging report.</p> <p>Responsible officer: Chief Executive</p> <p>Ongoing</p>
22	<p><b>4. Financial capacity</b></p> <p>2017/18 is a critical year in delivering efficiencies through the transformation programme and therefore it is essential that an appropriate finance structure is in place and is appropriately skilled to support the transformation process in a timely manner. The Finance Directorate restructuring is currently in transition, with a number of vacancies remaining at management levels. We understand that the revised structure will not be fully in place before the Autumn of this year.</p> <p><b>Risk</b></p> <p>The board may not have sufficient financial capacity to support the transformation programme as well as the</p>	<p>The board should closely monitor the restructuring of the finance directorate to ensure appropriate financial capacity is in place to support the transformation programme. The board should monitor the pace of change with the restructuring to ensure support is provided in a timely manner.</p>	<p>Updates will be provided to both the Audit Committee and Finance &amp; Resources Committee on the progress towards the agreed revision to the structure.</p> <p>Financial capacity together with other corporate function support, where appropriate, will be agreed with the Chief Executive.</p> <p>Responsible officers: Director of Finance/Chief Executive</p> <p>September 2017 and ongoing</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing
	ongoing, routine financial activities.		
28	<p><b>5. Risk management</b></p> <p>Internal Audit reported that there is a lack of clarity of the impact of HSCI on the accountability structures in place and there are a number of elements of the Integration Schemes and risk management systems in each organisation which do not appear to be consistent. An action plan point was raised by Internal Audit recommending that the responsibilities should be agreed and copied into the BAF framework as a matter of urgency.</p> <p><b>Risk</b></p> <p>Risks in relation to IJB related activities may not be fully understood and managed putting patient care at risk.</p>	<p>The board should ensure that Internal Audit's recommendation in relation to risks arising from IJB related responsibilities is fully implemented and that the respective board and IJB responsibilities are agreed and incorporated into the BAF framework as a matter of urgency.</p>	<p>Actions in relation to this recommendation are being progressed and will be reported to the Audit Committee.</p> <p>Responsible officer: Board Secretary September 2017</p>
30	<p><b>6. Public performance reporting</b></p> <p>The board's performance information is not accumulated and made readily available on the NHS Tayside website. In our experience other organisations have developed a performance page within their website for local residents to obtain ready access to performance information.</p> <p><b>Risk</b></p> <p>Local residents do not have access to composite performance information.</p>	<p>The board should consider its arrangements for public performance reporting, including developing a performance page that local residents can access on the board's website. The performance page should be well sign posted.</p>	<p>Public performance reporting will be further developed and made readily available on the NHS Tayside website.</p> <p>Responsible officers: Director of Performance/Board Secretary December 2017</p>
30	<p><b>7. Clinical strategy</b></p> <p>NHS Tayside does not have an overarching integrated clinical strategy, which clearly articulates and prioritises its clinical aims. The board has recognised this and plans to address this gap by developing an overarching clinical</p>	<p>An over-arching clinical strategy should be developed as soon as possible and should be approved by the Board. This should form the basis for the board's service and financial planning.</p>	<p>A paper will be presented to the Tayside NHS Board in June 2017 seeking permission to undertake this strategy work. Mental Health and Shaping Surgical Services will be the first aspects to be presented to the Tayside NHS Board</p>



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

strategy, however there is a lack of clarity over when this is planned to be delivered.

**Risk**

Until the board puts an overarching clinical strategy in place, there is a significant risk that the transformation programme will not deliver the right change, at the right time.

The overarching clinical strategy will be presented to the Board in December 2017.

Responsible officers:  
Chief Executive/Medical  
Director/Nurse Director

December 2017



# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> <li>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</li> </ul>	<p>Errors were identified from our testing but there was no evidence of deliberate manipulation by management.</p> <p>We did not identify any incidents of management override of controls from our detailed testing of journal entries, accruals and prepayments or our review of accounting estimates and transactions.</p>
<p><b>2 Risk of fraud over income</b></p> <p>NHS Tayside receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Analytical procedures on income streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk</li> </ul>	<p>No frauds were identified in our detailed testing of income streams.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). NHS Tayside incurs significant expenditure, including expenditure on family health services, which require audit coverage.</p>	<ul style="list-style-type: none"> <li>Walk-through of controls over family health service expenditure.</li> <li>Audit work on the National Fraud Initiative matches.</li> <li>Obtain assurances from the Counter Fraud Service.</li> </ul>	<p>No significant issues were identified from our testing of the family health services expenditure disclosed in the financial statements.</p> <p>We concluded that the board is proactive in following up NFI matches.</p> <p>The Fraud Liaison Officer provides an update to each Audit Committee meeting in relation to the work of the Counter Fraud Services in relation to the board</p>

Audit risk	Assurance procedure	Results and conclusions
		and no significant issues have been highlighted.
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert' for the professional valuer.</li> <li>• Review of information provided by the Office of National Statistics, HM Treasury, the Scottish Public Pension Agency and the Central Legal Office.</li> <li>• Focused substantive testing of assets and provisions.</li> </ul>	<p>We reviewed the professional valuer in accordance with ISA 500 and undertook detailed testing of key valuations within the accounts.</p> <p>We reviewed the Office of National Statistics, HM Treasury, the Scottish Public Pension Agency and the Central Legal Office information and performed testing of provisions.</p> <p>No material misstatements were identified.</p>
<p><b>5 Risk of misstatement of Enhancement During Leave (EDL) accruals and payments</b></p> <p>In 2014/15, NHS Tayside identified that it had not fully complied with 'NHS Circular PCS (AFC) 2008/12 – Changes to the way staff are paid during annual leave'. Further work was undertaken in 2015/16 which identified a total EDL expense of £9.356 million. £5.840 million has been paid in relation to years 2008 to 2015 leaving £3.516 million to be paid.</p> <p>There is a risk that further EDL liabilities are identified and estimates are not accurate.</p>	<ul style="list-style-type: none"> <li>• Review of management's EDL estimates.</li> <li>• Focused substantive testing of EDL accruals and expense.</li> </ul>	<p>We sample tested the board's calculations for 2016/17 figures and did not identify any significant errors</p>
<p><b>6 Consolidation of Integration Joint Boards (IJBs)</b></p> <p>Angus, Dundee and Perth and Kinross IJBs will be consolidated into the accounts of NHS Tayside for the first time in 2016/17.</p> <p>NHS Tayside needs to agree a timetable and approach to obtaining the IJB figures for consolidation, and assurances required for the group governance disclosures. As this is the first year, there is a risk that the timetable may not be achieved. There is also an increased risk of errors in accuracy and disclosure.</p>	<ul style="list-style-type: none"> <li>• Consider the timetable and process for consolidation of the group accounts.</li> <li>• Consider the assurances obtained by the board's Director of Finance for the group governance disclosures.</li> <li>• Agree the consolidation adjustment is accurate and correctly disclosed.</li> <li>• Confirm that any balances relating to IJBs have been agreed by the partner bodies.</li> </ul>	<p>Balances were agreed between NHS Tayside and the IJBs. No significant issues were identified from our review of the IJB disclosures in the board's 2016/17 single entity and group financial statements.</p> <p>The Chief Executive will need to ensure appropriate assurances are received prior to signing the accounts on 29 June 2017.</p>

Audit risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>7 Financial sustainability and transformation programme</b></p> <p>In October 2016, the Auditor General reported to the Public Audit and Post-legislative Committee on the significant challenges that NHS Tayside continues to experience in achieving financial sustainability. These include: challenging savings targets totalling £175 million (5 per cent of its RRL) over the next five years; a planned £11.7 million deficit for 2016/17; continuing reliance on non-recurring savings; and the requirement to repay £20 million of outstanding brokerage to the Scottish Government. NHS Tayside has developed a transformation programme aimed at achieving long term affordable and effective service delivery.</p> <p>There is a risk that the transformation programme does not deliver as intended in terms of the level of transformation and the pace of change needed and that the financial sustainability position does not improve. This could create uncertainty that the board will remain as a going concern.</p>	<ul style="list-style-type: none"> <li>Consider the outcomes from the committee discussions with the board.</li> <li>Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.</li> <li>Review financial monitoring reports and the financial position.</li> <li>Monitor transformation programme progress.</li> <li>Review of internal audit's work on the transformation programme and their follow up work on financial planning and financial management.</li> <li>Review of agreement (including brokerage repayment plan) reached with the Scottish Government on managing the financial sustainability of NHS Tayside.</li> <li>Review of the board's assurances to support a going concern assumption for preparation of the financial statements.</li> </ul>	<p>The board prepared a financial plan which provides the savings requirements for the period 2017/18 to 2021/22. The board requires to achieve savings of around £201 million over the five year period and the work on the transformation programme will be key to delivering these savings. A Scottish Government appointed Assurance and Advisory Group is reviewing the deliverability of the transformation programme and is set to report its initial findings soon.</p> <p>We have concluded that the board will find it extremely challenging to deliver the efficiency savings it requires to achieve over the next five years while continuing to sustain the existing levels of service. Going forward, the work of the Assurance and Advisory Group will inform this issue.</p>
<p><b>8 Financial management</b></p> <p>In 2015/16, internal audit reported that the Finance and Resources Committee had not received overt assurances on the capacity and capability of the Finance Directorate to support the organisation to deliver the changes required and achieve financial targets. They also reported that work was ongoing to fill a number of core posts within the Finance Directorate with a substantive review to be held once a permanent Director of Finance was appointed. A review of the Finance Directorate has since commenced and is ongoing.</p>	<ul style="list-style-type: none"> <li>Review the assurances to the Finance and Resources Committee on the capacity and capability of the Finance Directorate.</li> <li>Review of internal audit's work on financial management arrangements including the outcome of their interim and annual reviews.</li> </ul>	<p>The Finance Directorate restructuring is currently in transition, with a number of vacancies remaining at management levels. We understand that the revised structure will not be fully in place before the Autumn of this year.</p> <p>We have concluded that the restructuring will be crucial to provide appropriate financial support for the transformation programme and have recommended that the pace of change be monitored by the Board.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>There is a risk that the day to day and transformation programme financial management may not be sufficiently supported until the new Finance Directorate arrangements are finalised and become embedded.</p>		
<p><b>9 Workforce management</b></p> <p>NHS Tayside is experiencing a number of workforce challenges including rising supplementary staff costs (agency, bank and overtime), recruitment difficulties, sickness absence levels above the national target and a low level of completed personal development plans.</p> <p>In 2015/16, internal audit also highlighted a number of concerns around executive appraisal arrangements, with agreed management actions scheduled to be completed by October 2016.</p> <p>NHS Tayside recognises that workforce management changes are needed in the short and longer term as part of a wider programme of transformation to help manage its return to long-term financial sustainability.</p> <p>There is a risk that workforce challenges may impact on the board's plans to achieve its transformation programme. Service delivery may also be affected</p>	<ul style="list-style-type: none"> <li>• Monitor performance in this area, including progress with the workforce transformation work stream.</li> <li>• Monitor developments with the take up of the Supported Resignation Scheme.</li> </ul>	<p>NHS Tayside continues to face these workforce challenges.</p> <p>Recruitment and retention continues to be challenging and this, together with staff absences e.g. sickness absence, results in a continuing need for the use of supplementary staff. Supplementary staff costs continue to rise although the pace of increase is much reduced.</p>
<p><b>10 eHealth and information governance</b></p> <p>eHealth and information governance are interlinked and underpin the operation and delivery of services within NHS Tayside.</p> <p>In 2015/16 internal audit reported that implementation of many of the requirements of DL (2015) 17<sup>2</sup> were behind schedule. We understand that some progress has been made in this area, including producing a gap analysis which</p>	<ul style="list-style-type: none"> <li>• Undertake ICT overview work.</li> <li>• Place reliance on the information governance work which will be undertaken by internal audit in 2016/17</li> </ul>	<p>We carried out an ICT health-check to inform our understanding of the ICT environment in the board. We concluded that appropriate management arrangements are in place to assure the delivery of eHealth services. Challenges remain with the development and implementation of an ISO 27001-compliant Information Security Management System and migration of legacy patient care systems.</p> <p>Internal audit work on information governance has been deferred to</p>





















Audit risk	Assurance procedure	Results and conclusions
<p>details the areas which require further action.</p> <p>As this is our first year in a 5 year audit appointment cycle we will undertake an Information and Communications Technology overview to inform our understanding of the eHealth and information governance environment within NHS Tayside.</p> <p><sup>2</sup> <i>DL (2015) 17 Information Governance and Security Improvement Measures 2015-17 was issued in June 2015. Implementation is required by July 2017.</i></p>		<p>2017/18 due to other priorities.</p>

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# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

### NHS relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[NHS in Scotland 2016](#) – October 2016

[Social work in Scotland](#) – September 2016

[Scotland's NHS workforce](#) – February 2017

# NHS Tayside

## 2016/17 Annual Audit Report

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