



Scott-Moncrieff
business advisers and accountants

National Waiting Times Centre Board

Annual report on the 2016/17 audit
to the Board and the Auditor General for
Scotland

June 2017

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Summary

Financial statements

The Board approved the annual report and accounts for the year ended 31 March 2017 on 15 June 2017. We reported unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters. There are no matters which we are required to report to you by exception.

Financial management

The Board has effective arrangements in place for financial management and the use of resources. The Board met all of its key financial targets in the year, delivering a breakeven position against its revenue resource limit. The Board achieved its overall savings target during the year, which was crucial to delivering a balanced outcome.

The expected capital resource limit of £11.8 million was reduced to £4.947million due to in year allocations being £4.1million lower than expected and the return of £5million to SGHSCD. The reductions were somewhat offset by a revenue to capital transfer of £2.3million.

Financial sustainability

The Board has effective arrangements in place for short and medium term financial planning and the local delivery plan forecasts breakeven positions up to 2019/20.

The Board expects significant capital investment (£117.4million) over the next five years to fund expansion plans. The initial agreement for the planned expansion displays many examples of good practice in financial planning.

Governance

The Board has appropriate and effective governance arrangements in place. However, the Chair of the Board and the Chair of the Audit and Risk Committee have held interim posts since March 2016. The Board expects permanent appointments to be made following a Scottish Government recruitment exercise in October 2017.

The governance statement complies with Scottish Ministers' guidance and is consistent with the financial statements.

- **Unqualified audit opinion on:**
 - the financial statements
 - regularity
 - other prescribed matters
- **Effective arrangements in place for financial management and the use of resources**
- **Effective arrangements in place for short and medium term financial planning**
- **Good practice demonstrated in financial planning for the planned expansion**
- **Appropriate governance arrangements in place**
- **Performance management arrangements support the achievement of value for money**

Value for money

The Board has appropriate performance management arrangements in place that support the achievement of value for money. There is an established performance management framework that aligns to the local delivery plan and corporate objectives. The Board, its committees and managers receive regular updates on organisational performance. While the Board has not been able to achieve all its strategic targets in 2016/17, wherever performance has been below target the Board has received narrative explanations including planned remedial actions.

The Cabinet Secretary for Health and Sport carried out an annual review of the Board's performance and concluded that the Board had delivered another year of outstanding performance.

Conclusion

This report concludes our audit for 2016/17. We performed our audit in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
June 2017

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Introduction

Introduction

Overview

1. This report summarises our findings from our 2016/17 audit of the National Waiting Times Centre Board (“the Board”), also known as the Golden Jubilee Foundation.
2. We outlined the scope of our audit in our external audit plan, which we presented to the audit committee in December 2016. The core elements of our audit work in 2016/17 have been:
 - an interim audit, taking into consideration the work of internal audit, of accounting systems and corporate governance;
 - an audit of the Board’s 2016/17 annual report and accounts, including a review of the governance statement;
 - a review of arrangements as they relate to the four dimensions of wider-scope public audit: governance and transparency, financial management, financial sustainability and value for money;
 - collation of a minimum dataset of information as requested by Audit Scotland; and
 - consideration of the Board’s arrangements for taking part in the National Fraud Initiative data-matching exercise; and
 - consideration of the local impact of Audit Scotland’s national performance report [The Role of Boards](#).
3. The Board is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. We discussed and agreed the content of this report with the Director of Finance. We would like to thank all management and staff for their co-operation and assistance during our audit.
5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help the Board assess their significance and prioritise the actions required.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.
7. We welcome any comments you may have on the quality of our work and this report via: www.surveymonkey.co.uk/r/S2SPZBX.
8. 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.

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Financial statements

Financial statements

Introduction

9. The Board's financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. We outline the respective responsibilities of the Board and the auditor in relation to the financial statements in Appendix 2.
10. In this section we summarise the issues arising from our audit of the 2016/17 annual accounts.

Overall conclusion

Unqualified audit opinions

11. The Board approved the financial statements for the year ended 31 March 2017 on 15 June 2017. We reported, within our independent auditor's report:
 - an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity;
 - an unqualified opinion on other prescribed matters.
12. We are also satisfied there are no matters that we are required to report by exception.

Administrative processes were in place

13. We received draft financial statements and supporting papers of a good standard, in line with our agreed audit timetable. However, we did not receive the draft statutory annual report and accounts document until after we had completed audit fieldwork. We appreciate that this delay was principally due to resource constraints within the finance team. Our thanks go to all staff for their assistance.
14. Arrangements were in place to enable the annual report and accounts to be submitted to the Scottish Government and Auditor General for Scotland prior to the 30 June 2017 deadline.

Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. We designed our audit procedures relating to these matters in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. We outline four significant risks below, with one further significant risk outlined in section 4.

1: Consolidation of endowment funds

In October 2014 the National Waiting Times Centre Board Endowment Fund ("the Endowment Fund") was registered with The Scottish Charity Regulator and funds were formally transferred to the Endowment Fund during 2015/16. Where material, health boards are required to consolidate endowment funds into their financial statements.



16. At 31 March 2017, the total funds held by the Endowment Fund were £1.248million. The fund recognised incoming resources of £0.813million in the year and charitable expenditure of £0.266million. The Board does not consider the Endowment Fund to be material to the annual accounts as a whole. As a result, the Board has not consolidated the endowment fund into its financial statements in 2016/17.
17. We reviewed the Board's assessment and agreed that the approach taken is reasonable and consistent with the requirements of international accounting standards and the Government Financial Reporting Manual (FRoM). It is also consistent with our own assessment of materiality for the annual accounts as a whole, as outlined below.

2: The Golden Jubilee Conference Hotel

The Golden Jubilee Conference Hotel ('the hotel') forms a key part of the Board's unique model of care, with the hospital using the accommodation to assist with access for patients and their relatives from all over Scotland.

In May 2014 the Board approved the Beardmore 2020 Strategy. The strategy was developed to harness the strengths and opportunities available to the hotel, its role as an integral part of the Golden Jubilee National Hospital and as a national resource for NHS Scotland. The Board's vision is that *"by 2020 the Beardmore will be recognised as a pivotal meeting and hospitality element of an internationally renowned Innovation Campus, a global centre of excellence in quality, innovation and collaboration in health, hospitality and learning."*

We consider that the unique nature of the Board's operations in this area gives rise to a potential risk of misstatement in the financial statements.



18. The hotel has continued to be self-funding during 2016/17. We have carried out a high level review of the financial controls in place at the hotel and carried out testing to gain assurance over the completeness, occurrence and accounting treatment applied to the income raised through the hotel.
19. The Board continues to progress with the hotel's 2020 Strategy. A management and implementation planning group have responsibility for planning, implementation, scrutiny of agreed actions and managing risks to support the strategy. The Board monitors the hotel's performance through key performance indicators, which are included in the corporate scorecard reported to each Board meeting. The Board has an established and appropriate performance management framework, which is in line with corporate objectives.

3: Revenue Recognition

Under *ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.



20. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated the Board's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was consistently throughout the year.

4: Management override

In any organisation, there exists a risk that management have the ability to process transactions or adjust the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. In accordance with *ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements* auditors should treat management override as a presumed risk.



21. We have not identified any indications of management override in the year. We have reviewed the Board's accounting records and obtained evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed the journal entries processed in the period and around the year end.

Our application of materiality

22. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.
23. Our initial assessment of materiality for the financial statements was £2million, approximately 1.5% of the Board's forecast expenditure. Achieving a breakeven position through the application of both income and parliamentary funding is a key target for the Board and one of the principal considerations for the users of the accounts when assessing financial performance. We consider our initial materiality assessment to have remained appropriate throughout our audit.
24. We set a level of performance materiality for each area of work which is based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement

Area risk assessment	Weighting	Performance materiality
High	40%	£0.8million
Medium	55%	£1.1million
Low	70%	£1.4million

25. We agreed to report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
 - Uncorrected misstatements over £50,000;

- Misstatements below £50,000 that we believe warrant reporting on qualitative grounds.

Other matters

26. We did not identify any material weaknesses in the accounting and internal control systems that we consider could result in a material misstatement in the financial statements.

Audit differences

27. We identified minor disclosure and presentational adjustments that were reflected in the final financial statements. The adjustments, taken individually and in aggregate, did not have any effect on the Board's outturn for the year. There were two material adjustments to the draft financial statements arising from our audit:
- The aging of provisions and related receivables between current and non-current liabilities and assets respectively.
 - Amendments to pension disclosures within the remuneration report to correct directors' length of service and amounts advised directly by the SPPA in relation to the CARE scheme.

Board representations

28. We have requested that the Board present a signed representation letter, covering a number of issues, to us at the date of signing the financial statements. There were no unadjusted differences arising from our audit work.

An overview of the scope of our audit

29. We detailed the scope of our audit in our external audit plan. We presented the plan to the Audit and Risk Committee in December 2016. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk.

30. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

31. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.

32. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality.

Regularity

33. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Qualitative aspects of accounting practices and financial reporting

34. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the significant accounting policies, which are disclosed in the financial statements, to be appropriate to the Board.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We consider the accounting estimates and judgements used by management in preparing the financial statements to be appropriate. The principal areas of estimates and judgements have been: property valuations, asset depreciation rates and the valuation of provisions. Where appropriate, the Board has utilised the work of independent experts or industry practice to support the estimates made.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.

Qualitative aspect considered	Audit conclusion
Apparent misstatements in the annual report and accounts or material inconsistencies with the financial statements.	The annual report and accounts contain no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	While some disclosure and presentational adjustments were made through the audit process, there was no material disagreement during the course of the audit over any significant accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit. However, we did not receive the draft statutory annual report accounts document until after we had completed audit fieldwork.

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Financial Management

Financial Management

35. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the Board's responsibility to ensure that its financial affairs are conducted in a proper manner.

Overall conclusion

36. Overall, the Board has effective arrangements in place for financial management and the use of resources. We based our conclusion on a review of the Board's financial performance, underlying financial position, financial reporting and achievement of savings targets.

Financial performance in 2016/17

The Board met its key financial targets for the year

37. The Board has to work within the resource limits and cash requirements set by the Scottish Government Health and Social Care Directorates (SGHSCD). The Board met all of its key financial targets in 2016/17.

38. The Board reported a break even position against its revenue resource limit (RRL) in 2016/17. The outturn was consistent with the 2016/17 Local Delivery Plan (LDP). The reported position includes a capital to revenue transfer of £2.3million agreed with SGHSCD to support non-recurring revenue projects.

Financial Target	Limit £000	Actual £000	Variance £000	Target achieved?
Core revenue resource limit	65,128	65,128	-	Yes
Non-core revenue resource limit	7,247	7,247	-	Yes
Capital resource limit	4,947	4,947	-	Yes
Cash requirement	64,796	64,796	-	Yes

The Board invested £4.947million in assets

39. The Board invested £4.947million into capital projects during the year. As agreed with SGHSCD, the capital resource limit (CRL) was reduced from £11.8million outlined in the LDP to £4.947million. This was due to:

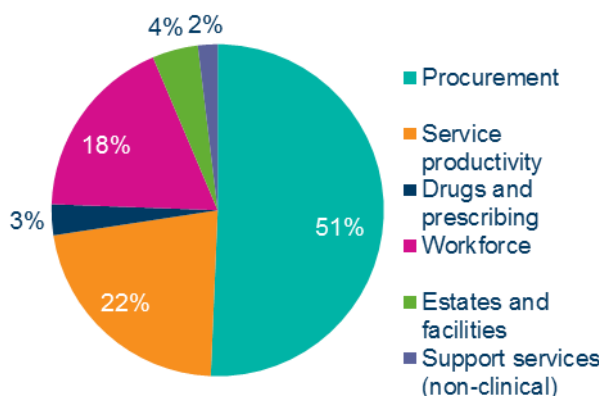
- In year allocations being £4.1million lower than expected in the LDP.
- £5million being returned to SGHSCD due to timing of capital spend principally on high value equipment. The Board expects to receive the funding again in 2017/18.
- The above reductions being somewhat offset by a revenue to capital transfer of £2.3million to support non-recurring capital projects in 2016/17.

Total efficiency savings were above target

40. The achievement of savings is crucial to delivering a balanced outturn. The Board's 2016/17 financial plan set out required recurring efficiency savings of £3.952million, of which £2.773million were cash-releasing savings. To achieve this target, the Board approved an efficiency programme in April 2016.

41. The Board achieved total efficiency savings of £4.355million during the year, 10% above the planned level. Cash releasing savings of £3.628million were generated, 31% above the original target.

Efficiency savings achieved by work stream



Recurring efficiency savings were below target

42. The Board achieved £3.888million of recurring savings against a target of £3.952million, a small under achievement (1.6%). The Board's LDP did not target any non-recurring efficiency savings, but the Board identified £0.467million non-recurring savings in year

43. Given the Board's success in achieving recurring efficiency savings in recent years it does not appear that the minor shortfall in 2016/17 is likely to put significant pressure on the Board's financial position.

Effective financial management arrangements in place

44. We found the Board's key financial systems were well designed and operating effectively. We reviewed the Board's system of budgetary control and financial management and did not identify any significant deficiencies. The Board's divisional managers have monthly meetings with a member of the finance and business service team to ensure budgets are in line with planned activity for the division.
45. Each Board meeting considers the most recent financial monitoring report. Reports detail performance against budget and narrative to explain any significant variances from budget and efficiency targets.

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Financial sustainability

Financial Sustainability

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

Significant audit risk

47. As outlined in our audit plan, we considered there to be a significant risk to the wider scope of our audit in relation to financial sustainability:

Financial sustainability

The Board has produced a local delivery plan (LDP) covering the financial years 2016/17 to 2018/19. The LDP forecasts a breakeven position against both recurring and non-recurring funding in each of the next three years. Although small increases are expected in the resources available to the Board over the next three years, the Board is expected to make substantial recurring efficiency savings each year. There is a risk that delivery of the Board's efficiency savings plans are at the detriment of services and/or on-going financial health.

Overall Conclusion

48. The Board has effective arrangements in place for short and medium term (3-5 year) financial planning. We reported above that the Board over achieved against efficiency savings in the year. The Board's continuing success in achieving the required efficiency savings and the current Scottish Government plans to expand Board services should put it in a relatively strong position in relation to ongoing financial sustainability.
49. We have assessed how the Board's financial plans, projections and efficiency saving targets consider the delivery of services in the future. The Board has started to plan on a longer-term basis when considering the costs and demand for increasing capacity to deliver ophthalmology services, with projections of revenue estimated up to 2035. The Board continues to aim for all efficiency savings to be recurring.

Financial Projections

50. The 2017/18 LDP forecasts a breakeven position against both recurring and non-recurring funding for the period 2017/18 to 2019/20. The financial plan reflects that the Scottish Government plans to invest over £100million in the coming years to expand the Board's services.

51. The planned expansion is a direct result of the success of the Board's service model. The expansion consists of two phases:
- phase one: delivery of ophthalmology elective care capacity; and
 - phase two: delivery of additional orthopaedic and other surgical elective care capacity.
52. The Board approved the initial agreement for the first phase of the expansion in May 2017. This agreement will require Scottish Government approval. The initial agreement displays many examples of good practice in financial planning, as shown below:

Examples of good financial planning taking place

- Comparison of past and future trends in the demand for Ophthalmology services in Scotland.
- Analysis of options to identify the most effective option for the Board to meet rising demand for Ophthalmology.
- Estimation of capital and revenue costs, including the net present value of each expansion option. Revenue costs estimated on a long-term basis up to 2035.
- The risks of the expansion plan have been analysed and actions identified to mitigate the impact of each risk.

53. As is standard practice, the Board's LDP covers a three year period, and is supported by a five year capital plan. We consider that the good practice being demonstrated in relation to the planned expansion should inform an approach to the Board's overall financial planning on a 5 to 10 year basis. This would help the Board to demonstrate that it is identifying risks to the financial sustainability of its service model, allocating resources to the services with the highest demand and identifying wider risks to financial sustainability.

Action plan point 1

Capital programme

54. The Board's is expecting to increase capital investment significantly over the next five years due to the proposed expansion:

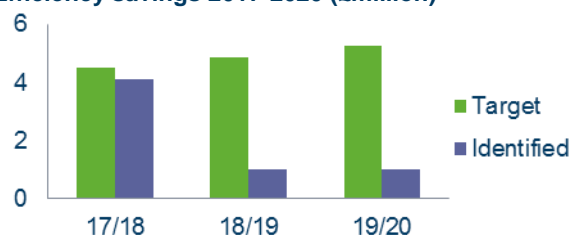
Projected capital resource limit (£million)



Efficiency savings

- 55. The Board continues to target relatively high levels of recurring efficiencies in its savings plans. Achieving a high level of recurring savings should help to promote financial sustainability in future years.
- 56. The Board has set out its target efficiency savings for the next three years within the LDP. The Board aims for 74% of its efficiency savings to be recurring in 17/18. This increases to 100% for the following two years.
- 57. To achieve a balanced position, savings are required every year to 2021/22. Through the LDP, the Board has calculated the efficiency savings required up to 2019/20. However, the Board has not yet identified how it will make the majority of the savings required in 2018/19 and 2019/20.

Efficiency savings 2017-2020 (£million)



58. In 2017/18, the Board aims to achieve efficiency savings of £4.5million. At the time of our audit, the Board had identified savings plans for £4.114million (91%) of the total. The proposed savings identified are:

- Redesign of Ophthalmology and Orthopaedic pathways.
- Shared procurement services.
- Review design of theatres work stream.
- Reduction in agency staff costs.

59. 77% (£3.167million) of the proposed 2017/18 efficiency savings were identified as low risk, with the remaining 20% classified as medium risk and 3% as high. The Board has carried out scenario planning to identify risks to the financial plan.

Key assumptions and risks in the LDP financial plan

60. The key, high-level financial assumptions used by the Board for 2017/18 are detailed below:

Income/expenditure	2017/18 uplift (%)
Revenue growth	0.78%
Uplift in expenditure	0.64%
Efficiency savings (increase from achieved savings in 16/17)	3.3%

61. The assumptions over income and expenditure are broadly consistent with the rates applied by the Board in previous years and are underpinned by a range of more detailed assumptions for particular income and expenditure streams.

62. The Board has recognised the limitations of the information available when projecting long-term information and has undertaken scenario planning to assess the assumptions used in the LDP. The Board used the outcome of this scenario planning to set out the risks relating to the assumptions set out in the financial plan.
63. The Board identified one high risk and one medium risk to achieving its planned efficiency savings. The high risk relates to potential challenges in achieving additional waiting time initiatives. The medium risk is that costs for energy and waste may increase at a level higher than expected.
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Governance & transparency

Governance & transparency

64. Governance and transparency is concerned with the adequacy of governance, leadership and decision making, and transparent reporting of financial and performance information. The Board is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements

Overall conclusion

65. The Board has appropriate and effective governance arrangements in place. Our audit work included reviewing corporate governance arrangements as they relate to:
- systems of internal control;
 - risk management;
 - internal audit;
 - the prevention and detection of fraud and irregularity;
 - standards of conduct and the prevention and detection of bribery and corruption; and
 - consideration of the local impact of Audit Scotland's national performance report [The Role of Boards](#).

The governance statement

66. We are satisfied that the governance statement within the annual report and accounts complies with the Scottish Ministers' guidance and that the content is consistent with the financial statements.
67. The accountable officer did not disclose any significant issues in governance statement and internal audit did not identify any high-risk recommendations in the year. The disclosures in the Governance Statement are consistent with internal audit's conclusion for 2017/18.

Governance Arrangements

Board appointments

68. The previous Chair of the Board resigned on 18 March 2016 and the Chair of the Audit and Risk Committee was subsequently appointed as Interim Board Chair. As a result, the Audit and Risk Committee appointed an interim chair from its membership, however no additional members were appointed to the committee.
69. Permanent appointments have not yet been made to either of these two key posts. The interim arrangements have therefore effectively reduced the number of committee members. In practice, every Audit and Risk Committee meeting has been quorate during the year. However, reduced committee membership increases the risk that meetings are not quorate.
70. The Scottish Government is currently conducting a non-executive recruitment exercise. The Board expects two new non-executives to be appointed in August 2017 with the permanent Board Chair appointment in October 2017.

Director of Quality, Innovation and People

71. The Board appointed a Director of Quality, Innovation and People in January 2017. This appointment followed on from a review of roles and responsibilities conducted after a vacancy in the Director of Human Resources post. The new post reflects the strategic importance recognised by the Board of improving quality, innovation, leadership and long term work force planning.

Accounting and Internal Control systems

72. The Board has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in the accounting and internal control systems during our audit.

Risk Management

73. The Board continues to have an adequate risk management framework in place and during 2016/17 this was further strengthened through:
- appointing a temporary Chief Risk Officer on a trial basis;
 - establishing a strategic risk group, with terms and reference and work plan approved by the Audit and Risk Committee; and
 - updating the risk register to consider the type (financial, regulatory, operational etc.) and longevity of risks.

Internal Audit

74. PwC provides the Board's internal audit service. To avoid duplication of effort and to ensure an efficient audit process we have taken cognisance of all of the work of internal audit. We are grateful to the PwC team for their assistance during the course of our work.

Fraud and irregularity

75. In accordance with the Code of Audit Practice, we have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall, we found the arrangements to be sufficient and appropriate.

National fraud initiative

76. The most recent NFI exercise commenced in October 2016 and as part of our 2016/17 audit we monitored the Board's participation in NFI. We found the arrangements for participation in the NFI to be satisfactory.
77. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

78. The NFI produces 'matches' by using data matching to compare a range of information held on bodies' systems to identify potential fraud or error. Bodies investigate these matches and record appropriate outcomes based on their investigations.
79. The current NFI exercise identified 1,195 matches for the Board, of which 144 were recommended for investigation. Due to circumstances outwith the Board's control, matches relating to payroll data were not released on a timely basis. These matches account for 190 of the total matches (44 of the recommended matches).
80. While the Board's overall arrangements have been satisfactory, changes within the finance team, as well as the late release of payroll matches, have meant that only 12 of the recommended 142 matches have been concluded upon to date. However, the Board has conducted a high-level review of recommended matches and plans are in place to ensure the remaining recommended matches will be investigated.

Standards of conduct

81. In our opinion, the Board's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.
82. To inform our conclusion we reviewed the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct. We also considered the controls in place to ensure compliance with the SGHSCD regulatory guidance throughout the year.

The Role of Boards

83. In September 2010 the Auditor General for Scotland published a report aiming to assess the role and work of boards across 67 public bodies and 39 colleges. The report made the following recommendations:

All non-executives should receive a formal induction	Boards should review the skills and expertise required on the Board and attract people to plug the gaps	Performance of non-executives should be assessed on a regular basis	Scrutiny efforts should be focused on organisational performance, financial and risk management
Performance information provided to the board could be improved	Boards should aim to maximise openness and accessibility of papers	Declarations of interests should be considered at every meeting	Boards should review the use of committees and ensure delegation levels are appropriate

84. As part of our work in 2016/17 we followed up on the issues highlighted by Audit Scotland. Our aim was to identify any causes for concern or areas of good practice. Our detailed findings will be shared with Audit Scotland and are summarised below.

Arrangements for scrutiny and decision-making are appropriate

85. In our opinion, arrangements for scrutiny and decision-making at the Board are appropriate.

86. Non-executives receive an induction, which includes a presentation from each director to give non-executives an understanding of the Board's operations. Both the Board and the Scottish Government provide training and support for non-executives.

87. The Board hold workshops for members to improve any skills and knowledge gaps, required for decision-making. For example, prior to the initial agreement for phase one of the expansion being presented to the Board, a workshop was held to explain the information within the agreement and allow member to ask any questions.

88. All non-executive members receive an annual appraisal from the Board Chair. From our review of the minutes of Board and Committee meetings, there is evidence that non-executives appropriately scrutinise and challenge information provided by management.

89. Each committee carries out a review of performance against their terms of reference. Outcomes from these reviews are reported to the Board. Every two years a Scottish Minister attends a Board meeting to assess the Board's performance. The Secretary for Health and Sport attended the public board session in November 2016 and reported outstanding performance.

90. The Performance and Planning Committee scrutinises the high volume of performance data that is monitored internally. This committee then reports strategic performance information back to the Board.

91. The Board holds meetings in public, papers are available online in advance and minutes of meetings are published on the Board's website. The Board receives updates from each committee identifying any decisions which require Board approval. Declarations of interest are a standing item on the Board and committee meeting agendas.

6

Value for money

Value for money

92. Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the Board's reported performance and to what extent this demonstrates continuous improvement.

Overall conclusions

93. We found that the Board has appropriate performance management arrangements in place that support the achievement of value for money.

Performance management arrangements

94. The Board's LDP sets out local targets, priorities and LDP standards which link to the Scottish Government's national outcomes. In 2017/18 the Board set the following six local targets and priorities:



95. The Performance and Planning Committee and the Board monitor performance against the priorities every six weeks through a range of reports. The Performance and Planning Committee reviews a large volume of operational performance data from each division. The Board receives an update on each division's performance and business activity, along with the corporate scorecard, which reports against the Board's strategic performance measures.

Annual review by the Cabinet Secretary

96. In November 2016, the Cabinet Secretary for Health and Sport carried out an annual review of the Board's performance and concluded that the Board had delivered another year of outstanding performance. Actions arising from this review confirmed support for the Board's LDP local targets and priorities.

Efficiency and quality is improved through benchmarking

97. The Performance and Planning Committee reviews benchmarking reports of performance against other NHS Scotland boards and similar boards in the UK. These reports have been shared with the Efficiency and Productivity Working Group, the Board's divisions and the Clinical Governance Committee, to help identify areas where efficiency and quality have been improved.

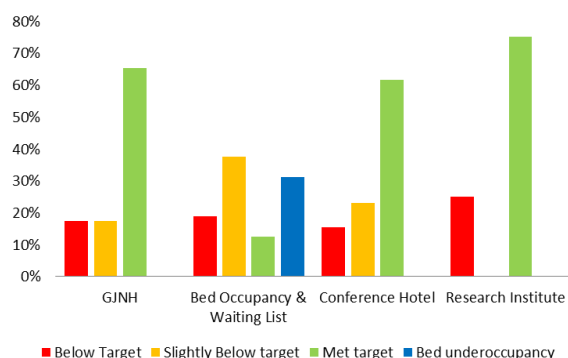
Corporate Balanced Scorecard

98. The Board splits the corporate balanced scorecard by four key governance areas: Clinical, Staff, Financial and Operational. Each area has key performance indicators (KPIs) on relevant LDP standards. Scorecards are also in place for the Golden Jubilee Conference Hotel and the Research Institute. The KPI's align with the Scottish Government's quality ambitions: safe, effective and person-centred and the Board's corporate objectives.

99. Monthly performance reports measure each KPI on the scorecard using a red, amber, green (RAG) rating. The scorecard also includes an update on performance and a graph detailing the two-year trend analysis against target. An exception report of all red or amber ratings with detailed narrative explanation helps to focus discussion at Board meetings.

100. The chart below summarises performance against the Board's 60 key performance indicators, as reported to the Performance and Planning Committee in May 2016.

2016/17 Performance against KPIs



101. The Golden Jubilee National Hospital (GJNH) met 65% of KPI targets in the year, 18% were slightly below target and 17% of targets were not met. This reflects a slight reduction in performance compared to last year (80% met).

102. The number of KPI's not met in the year increased due to job plans not always being submitted on a timely basis and delayed response times to complaints. Bed occupancy rates also fell. However, performance improved in sickness absence rates and in the submission of doctors' appraisals. Details on where performance fell below target are provided below.

103. The Hotel achieved all KPI's, with the exception of two: achieving profit within 10% of the strategy and patient usage of the hotel. The Board does not consider the performance against these two measures to be of significant concern and remedial actions have been agreed to address the performance.

Key performance measures not met in 2017/18

Performance measure	Target	Actual	Board analysis	Remedial action(s)
Person centred				
Response to complaints (within 20 days)	>75%	57%	Delays in responses related to annual leave of key staff and complaint complexity investigation findings being received from another Board, and clinical investigations	The Medical Director is leading a formal review of internal processes that coincides with the new complaints handling guidelines.
Sickness absence	4%	4.3%	Of the 4.3% sickness absence reported, 1.53% was long term and 2.76% was short term.	The Human Resources team continues to work closely and proactively with managers to monitor and manage episodes of sickness absence. Access to relevant health services by support staff is improving.
Effective				
Job Planning Surgical Specialties Current, signed off job plans	100%	75%	The Surgical position has risen steadily with a position of 75% reported as of the end of March. A number of surgical job plans not confirmed due to long-term absence and role changes.	Working group set up to assist with the new job planning system. HR is involved to ensure staff complete job plans on a timely basis.
MRSA/MSSA bacterium cases per 1000 acute occupied bed days	0.12	0.16	The full year rate for 2016/17 was 0.16 per 1,000 occupied bed days which, while over the local target of 0.12 cases, remains below the national trajectory of 0.24 cases.	An investigation is underway and additional support is being provided by the Prevention and Control of Infection Team to target potential root causes.

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Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit. The action plan details the officer responsible for implementing the recommendation and an implementation date. The Board should assess the recommendation for wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work and may not be all that exist. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvement in management arrangements. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Action plan grading structure

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1. Financial sustainability	As is standard practice, the Board's LDP covers a three year period, and is supported by a five year capital plan.	This is acknowledged and work had already commenced in considering the 5-10 year impact of the expansion and related financial consequences. This is of particular importance to the West of Scotland Health Boards who are likely to access the increased capacity from the expansion
Rating	We consider that the good practice being demonstrated in relation to the planned expansion should inform an approach to the Board's overall financial planning on a 5 to 10 year basis.	
Grade 3	This would help the Board to demonstrate that it is identifying risks to the financial sustainability of its service model; allocating resources to the services with the highest demand and identifying wider risks to financial sustainability.	Action owner: Director of Finance
Paragraph ref		Due Date: Will be incorporated into the outline business case planned for end of calendar year 2017 and will be described within the financial plan for 2018-19.
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Appendix 2: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual report and accounts

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

In preparing the annual report and accounts, the Board and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by Scottish Ministers;
 - make judgements and estimates on a reasonable basis;
 - state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
 - prepare the accounts on a going concern basis unless it is inappropriate to presume that the Board will continue to operate; and
 - ensure the regularity of expenditure and income.
- Board members are also responsible for
- keeping proper accounting records which are up to date; and
 - taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM ;

- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

We are also required to report by exception if, in our opinion

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.



Scott-Moncrieff
business advisers and accountants

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